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Morgan Stanley Asia (Singapore) Pte.+

Charles C. Spencer
Charles.Spencer@morganstanley.com
+65 6834 6825

Mean Phil Chong
Mean.Phil.Chong@morganstanley.com
+65 6834 6194

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Asia Insight

Agricultural Products

Asia Insight: Cost of Sustainability; No Longer an Option

Record haze in 2013 will lead to greater regulation and higher costs for many palm oil producers. Whilst SIME looks most advanced, WIL (OW) is a close no. 2 and its shares are 20% cheaper. However, we downgrade AALI and GENP to UW and lower our industry views to Cautious and In-Line.

We see increased risk for some palm oil producers after this summer's record fire-related haze: Our recent checks with investors yielded two key questions.

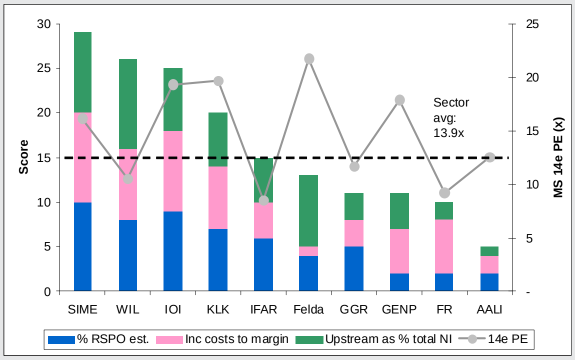
- Are sustainability risks rising? We say "yes". We expect to see increased enforcement by regional governments regarding unsustainable agricultural practices such as burning for cheap and quick land clearing.

- Will costs rise for some producers? Again, we say "yes". We expect to see costs rise by as much as US$30/t (~10%) as some producers upgrade their agricultural practices or target certification by the Roundtable on Sustainable Palm Oil (RSPO).

Relative winner/losers: We rank the companies in our coverage by the percentage of certified palm oil production, with leading positions for SIME, IOI and WIL. At the other end of the spectrum are AALI, FR, GENP and Felda, which we expect to face the most significant increases in production costs through the end of the decade as they catch up with their peers.

Where could we be wrong? Demand for certified palm oil has been driven exclusively by European consumer goods manufacturers like Unilever and Nestle. However, Asia accounts for one-half of the world's palm oil demand, and thus far Asian consumers have yet to show much interest in paying up for certified palm oil.

Sustainability Score and 2014e P/E Valuation: WIL Offers High Score and Attractive Valuation



Source: Company data, Morgan Stanley Research

PT and Rating Changes

	New	Old
Indo Agri Products	In-Line	Attractive
Malaysia Agri Products	Cautious	Attractive
GENP	UW	OW
AALI	UW	OW
GENP	8.10	11.60
AALI	14500	21500
IFAR	1.15	1.30
FR	2.25	2.40
GGR	0.65	0.68
Felda	3.65	3.80
KLK	16.00	16.30

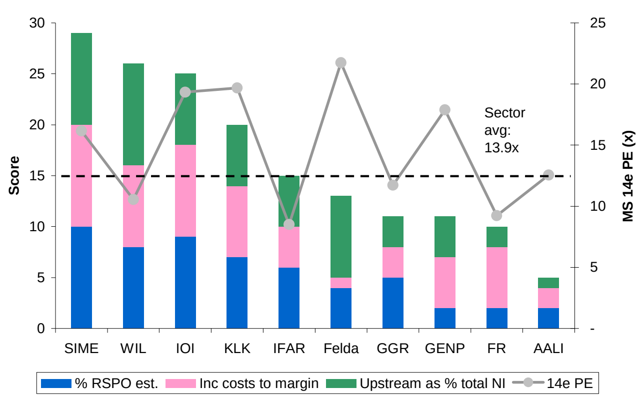
Source: Morgan Stanley Research

Investment Conclusions

Our Approach and Key Conclusions: In this report, we focus on sustainability as we rank the shares under coverage in our Agricultural Products industries across three scores: 1) the percentage of RSPO-certified estates; 2) the forecast incremental costs to achieve certification as a percentage of current profitability; and 3) the percentage of upstream plantations exposure to group earnings. We also overlay the 2014e P/E to determine if the market is already discounting the expected cost increases some in the group will experience due to stricter government enforcement.

As Exhibit 1 illustrates, Sime Darby ranks best-in-class as nearly all its plantation estates are RSPO certified, which also positions the company at the top of the list in terms of the lowest expected incremental costs related to increased sustainability efforts. However, trading at 16.1x our 2014e EPS, the stock's valuation is also at a 20% premium to the group. That said, we see two key investment conclusions that we do not believe the market is reflecting:

Exhibit 1
Sustainability Scores and 2014e P/E: WIL Offers High Scores and Attractive Valuation



Source: Company Data, Morgan Stanley Research estimates

OW Wilmar: Wilmar ranks near the top of our sustainability score, and trading at just 10x our (and consensus) 2014e EPS, we find the stock much more attractive than the company's higher- ranking peers. We maintain our EPS forecasts, OW rating and PT of S$4.20, offering 35% upside from current levels in the coming 12-months.

UW GENP: GENP ranks near the bottom of our sustainability scoring, and with the stock trading at roughly 20x our 2014 EPS forecast, in our view the risks to the sustainability in its business model appear unappreciated by the market. We cut our EPS forecasts by 14% for 2014 and 7% by 2018, when we expect the full impact of sustainability upgrades to be incorporated. In addition, we cut our PT by 30% to Rp8.10, implying 20% downside from current levels in the coming 12 months, and our rating to Underweight.

UW Astra Agro: AALI ranks at the bottom of our sustainability scoring, and trading at over 12x our 2014 EPS forecast, in our view the risks to the sustainability in its business model appear unappreciated by the market. We cut our EPS forecasts by 11% for 2014 and 12% by 2018, when we expect the full impact of sustainability upgrades to be incorporated. We cut our PT by 33% to Rp14,500, implying 17% downside from current levels in the coming 12 months, and our rating to Underweight.

Industry Views to In-Line/Cautious: We downgrade our Industry Views for our Indonesia Agricultural Products coverage from Attractive to In-line and our Malaysia industry coverage from Attractive to Cautious as we now expect industry profitability and returns to be lower. With increased sustainability efforts, we expect costs for the industry to rise. Our Cautious view for Malaysia reflects that four stocks in the group are rated UW and one is rated EW. There are no OW-rated Malaysia plantation stocks in our coverage.

On average, we have cut our 2014 earnings forecasts by 5%, and we are now 4% below Street consensus. In addition, we expect news flow to turn unfavorable during much of 2H13 as seasonal production rises ~20% HoH, which typically leads to rising inventory and less pricing power for the industry. In our July 10, *Weekly Monitor,* we forecast that Malaysian palm oil inventory bottomed for the year in June, and would begin to rise in July as monthly production lifts by nearly 10% MoM. In addition, *Bloomberg* reported on July 16 that industry forecaster Oil World expects world production of soybean and sunflower oils to exceed consumption in the year ahead, leading to a rise in inventories across the edible oil complex.

Price target and earnings changes: We cut our earnings forecasts for the plantation companies in our coverage by 5% on average for 2014, with a progressive increase to an average of 6% by 2018 to factor in higher sustainability costs. The biggest adjustments (11-14% for F2014E; 7-12% for F2018E) affect those companies that have low levels of certified production, high production costs and a high reliance on upstream plantations, namely IFAR, AALI, GENP, and GGR.

As a result, we cut our price targets for seven of the 10 plantation companies in our coverage by an average of 7% across the group under our earnings-based residual income valuation models.

We have made material adjustments to our EPS estimates and PTs for GENP, IFAR, and AALI due to their poor sustainability score rankings. Our EPS and PT changes for FR, GGR, Felda and KLK range from -1% -3.4% and from -2% to -6%, respectively, to reflect higher costs related to increased sustainability efforts. Our PT and EPS forecasts for SIME, IOI and WIL are unchanged as we expect these companies to face limited, if any, sustainability-related costs. These companies have high levels of certification and diversified operations with a low reliance on upstream plantation.

Exhibit 2
PT Changes and Returns

Price target	New	Old	chg	Return to PT
GENP	8.10	11.60	-30%	-20%
AALI	14,500	21,500	-33%	-19%
IFAR	1.15	1.30	-12%	21%
FR	2.25	2.40	-6%	28%
GGR	0.65	0.68	-5%	13%
Felda	3.65	3.80	-4%	-20%
KLK	16.00	16.30	-2%	-26%
IOI	3.95	3.95	0%	-28%
WIL	4.20	4.20	0%	34%
SIME	9.30	9.30	0%	-2%
Average			*-7%*	*0%*

Source: Company Data, Morgan Stanley Research

Exhibit 3
Impact of Higher Production Cost on Earnings

	2014e			2018e		
EPS	New	Old	chg	New	Old	chg
IFAR	787	912	-14%	1,047	1,166	-10%
GENP	0.50	0.58	-14%	0.71	0.76	-7%
AALI	1,370	1,535	-11%	1,246	1,456	-14%
GGR	0.039	0.041	-3.4%	0.04	0.04	-9%
Felda	0.21	0.22	-3.2%	0.25	0.27	-6%
FR	0.15	0.16	-2.7%	0.20	0.21	-6%
KLK (SepYE)	1.10	1.11	-0.8%	1.01	1.07	-5%
IOI (Jun YE)	0.28	0.28	0.0%	0.33	0.33	0%
WIL	0.24	0.24	0.0%	0.33	0.33	0%
SIME (JunYE)	0.59	0.59	0.0%	0.62	0.62	0%
Average			*-5%*			*-6%*

Source: Company Data, Morgan Stanley Research
In this report, stock prices as of July 16, 2013 close. AALI, IFAR EPS in Rp, WIL, FR, GGR EPS in US$ and Felda GENP, IOI, KLK, SIME EPS in RM. AALI PT in Rp, WIL, FR, GGR, IFAR PT in S$ and Felda GENP, IOI, KLK, SIME PT in RM.

Greater Enforcement to Accelerate Change: Despite years of rhetoric with little action, we sense a shift toward stricter enforcement of existing rules and laws. For example, burning as a means of clearing land is already illegal and punishable by up to 10 years in prison. However, this year air pollution due to activities like this hit record levels in some areas like Singapore. In years with unusually dry weather, fires and pollution can be widespread, as in 1997-98, 2005-06 and again this year. In 2002, ASEAN members proposed an agreement to fight fire pollution, but Indonesia did not sign it.

However, with improved satellite imaging technology and better mapping systems, we believe non-compliant companies will increasingly be at risk of being identified, and then compelled to pay fines and/or upgrade their assets – or have them confiscated. As an example, on July 9, *Business Times* reported that Singapore's parliament is studying the feasibility of introducing extra-territorial law to penalize firms that are proven to be responsible for polluting the air. The article quotes a letter from the Indonesian President to Singapore's Prime Minister that Indonesia is in the final stages of resubmitting the ASEAN member agreement on transboundary haze pollution to its Parliament for ratification ahead of the ASEAN environment ministers' meeting this October.

Certification as a defense: This summer's air quality (haze) problems illustrated how the Roundtable on Sustainable Palm Oil (RSPO) can assist palm oil companies defend themselves against wrongful accusations. On June 24, the Indonesia Environment Ministry named eight companies, including subsidiaries of SIME, GGR and KLK, as possibly involved in a forest fire in Indonesia. The RSPO requested its named members submit maps of their concession areas to the investigation. On July 5, RSPO published a letter with the results of its analysis showing a small number of hot spots in plantations owned by SIME, GGR and KLK, and included a series of maps with estates boundaries.

How KLK used RSPO as a defence: We believe that KLK presents the most clear and successful example of RSPO's certification, independent review and publication of findings to defend its members that have been carrying out sustainable best practices. On June 23, with Singapore's PSI air quality index still elevated, government officials in Indonesia and Singapore pointed to unsustainable practices by the palm oil industry and named eight companies, including KLK, that they believed were involved in the burning of land for clearing. Local media (*Straits Time, New Straits Times*) picked up on the news reported that the companies were engaged in environmentally harmful practices.

Five of the companies named were RSPO members, and a meaningful percentage of Indonesian plantations operated by Sime Darby, IOI and KLK are certified as RSPO compliant. On June 24, the RSPO launched an internal investigation, and asked the companies named to provide the organization with digital maps identifying their concession areas. With the help of the World Resource Institute and other industry experts, the RSPO then overlaid the concession boundaries with real-time Active Fire Data from the National Aeronautics and Space Administration (NASA) for June 1-26, 2013. It published the conclusions of its review on July 11. Exhibit 4 summarizes the initial findings:

KLK published a letter on July 12 highlighting the outcome of the RSPO's analysis and further clarified that the one fire identified on its estate was in a conservation area where the local community had tried to clear an area for crop cultivation. When this area was detected by KLK estate management, the fire was extinguished within 24 hours. KLK then reiterated that as a member of RSPO, it is in full compliance with the RSPO's Principles & Criteria, including but not limited to a strict zero-burning policy.

The RSPO published a subsequent letter on July 15, stating that further analysis of PT Jatim Jaya Perkasa (not covered) estates determined that there were 74 fires within its concession, and the RSPO will next determine the origin of these fires and if it is the result of a failure in managing environmental-related risks (see also *Borneo Post*, July 17). RSPO will review the information, and could take action against non-compliant players, supporting the integrity of the certification process.

Exhibit 4

RSPO Findings on Indonesia Forest Fires

Company Concession Boundaries & Fire Alerts Data		
Company Name	HGU Concession Boundaries Provided [i]	Number of Fire Alerts within Concession Boundaries
Sime Darby	✓	6
GAR	✓	3
KLK	✓	1
Tabung Haji	✓	0
PT Jatim Jaya Perkasa	✗	N/A

[i] All maps submitted by companies are based on their Hak Guna Usaha (HGU) or Business Use Rights License. These licenses are issued by the Province or District's National Land Agency
(N/A: not applicable)

Source: RSPO

Exhibit 5

Using RSPO as a Defense: Timeline of Recent Sustainability Events

Date	Events
June 20	Record PSI readings in Singapore from Indonesian land clearing fires
June 22	GGR issues statement on zero-burning policy and no hotspots or fires in its concessions
June 23	Environment Ministry names eight palm oil companies involved in burning land
June 24	RSPO launches investigation into four of its five members' estates using real-time satellite imaging from June 1.
July 11	RSPO publishes initial conclusions on four of the five members reviewed, with generally favorable findings on industry practices.
July 12	KLK publishes a letter to customers and stakeholders on the conclusions from the RSPO review.
July 15	RSPO publishes subsequent review of PT Jatim identifying questionable practices, which will require further review and potential action by RSPO.

Source: RSPO, Company Data, Morgan Stanley Research

Production Costs to Rise for Some: With increased enforcement, we believe the larger listed companies will increasingly look to distance themselves from potential high-risk producers, including membership and certification from RSPO and the International Sustainability and Carbon certification Scheme (ISCC) across their estates. We believe moves like this will clearly identify them as a group that operates and maintains sustainable standards in agriculture practices. However, the cost to become certified can range from ~US$10 to US$70 per hectare, plus annual surveillance audits costing US$3-13/ha, according to a 2012 report from the WWF. Our industry contacts suggest the annual cost to comply with RSPO approaches US$30/t and could reach US$50/t under more stringent sustainability conditions.

Astra Agro has yet to become an RSPO member, and together with Genting Plantations and First Resources, has yet to begin certifying its estates. As such, we forecast costs for the three companies rising by US$30/t in the next five years as they move toward RSPO certification, or some other method to distance themselves from sustainability risks. Sime Darby is at the other end of the spectrum, with nearly 100% if its estates currently certified, we forecast little, if any, incremental certification costs for the company over the next five years.

Bank Financing and Lending Costs: A number of financial institutions have recently introduced guiding policies and principles for palm oil industry transactions. For instance, Deutsche Bank requires their client to provide a certification plan for plantation or mill in accordance with RSPO criteria. Other major banks such as Credit Suisse, HSBC, Rabobank and Standard Chartered also have policies aimed at channeling investment toward RSPO companies and avoiding non-certified companies. Our channel checks suggest that companies without RSPO certification may face higher lending costs from banks.

Exhibit 6

We Expect Higher Costs as Plantation Companies Increase Their Sustainability Efforts

Period	Target	Potential Cost inc-$/t	MS Base case
Next 18-24 months-2014e	Increase RSPO certification	30	15
Next 5 years-2018e	Achieve CSPO traceability	50	30

Figure represent cumulative costs increase per ton over the previous base case forecast.
Source: Morgan Stanley Research

Can Producers Pass on Certification Costs? It is unlikely that demand for certified palm oil will accelerate fast enough for producers to pass the higher production costs incurred for certification on to their customers. For example, in 2012, certified palm oil production of 8mn tons exceeds demand of 4mn tons, and prices paid for certified palm oil are at the narrowest premiums on record. Unilever and other European consumer good companies are the major buyers of certified palm oil, whilst Asian buyers have yet to show much interest in certified production.

Debate 1: Are Producers Facing Increased Regulatory Risks?

Market's view: No, despite increasing rhetoric on sustainable practice enforcement, the production-related haze seems to recur annually with few, if any, producers penalized.

Our view: Yes, we sense a change from prior years, and believe that enforcement will accelerate, which will also accelerate producers' strategies to distance themselves from potential high-risk players with unsustainable agricultural strategies.

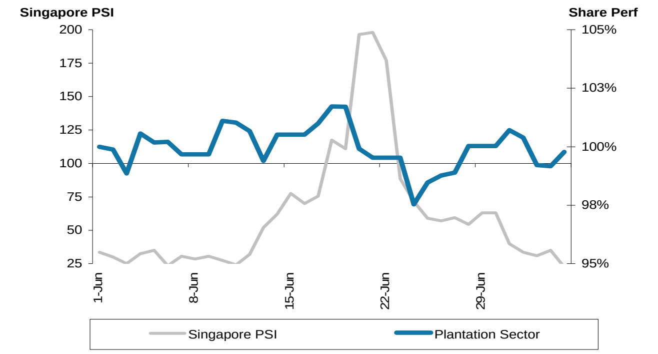
Investor Reaction Modest, Despite Record PSI: Despite the Pollutant Standard Index (PSI) in Singapore rising to a record of 198 (daily average) on June 22, 2013, prices of palm oil plantation stocks under our coverage in Singapore, Malaysia and Indonesia have shown little movement recently.

Local and international media in Singapore and Malaysia, including the S*traits Time, New Straits Times* and *Bloomberg.* reported that facilities owned by oil palm plantation companies SIME, KLK and GGR were involved in the forest fires in Indonesia and called for action to be taken against the companies as these companies were named by the Indonesia Environment Ministry. In addition, there were calls by the public and the politicians for tough measure against plantation companies that allow slash and burn farming.

However, the market appears to view this as an annual event. Forest fires in Indonesia are the primary cause of the haze in Southeast Asia. There is evidence that suggests that oil palm farmers, both smallholders and large companies, clear land by burning. However, the government rarely takes strong or effective action against errant farmers or companies. We believe investors are looking beyond the rhetoric and waiting for significant penalties to be levied before making any investment decisions regarding the plantation companies.

Exhibit 7

Short-term underperformance despite record PSI; we sense it's not fully discounted



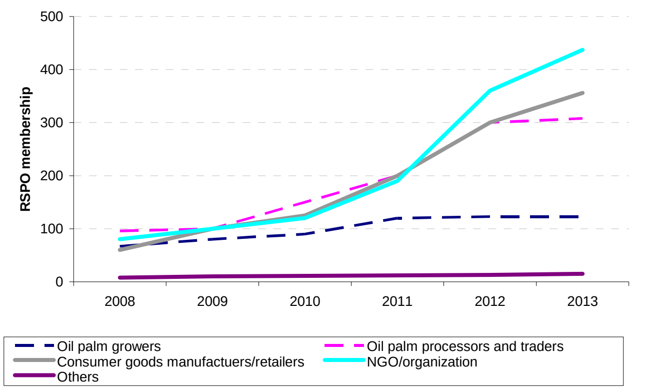
Consists of GENP, SIME, KLKK, IOIB, IFAR, GAGR, FRLD, FGVH, AALI, WLIL. Past performance is no guarantee of future results. Results shown do not include transaction costs.
Source: NEA, Morgan Stanley Research

But Enforcement to Accelerate: We sense a change from prior years, however. The Indonesia government is preparing to ratify the ASEAN Agreement on Transboundary Haze Pollution (2002). In our view, there is greater political will to ratify the agreement due to the severity of the haze this year. According to the Indonesia Environment Minister, Dr Bakthasar Kambuaya, Indonesia targets to complete ratification in 2013.

In addition, officials from the Singapore government are looking into measures to be taken against companies that contributed to the haze. The Prime Minister of Singapore indicated the use of increased surveillance to identify and pursue errant companies.

Certification to Differentiate: We believe listed producers in Singapore and regionally will look to accelerate the process of distancing themselves from potential high-risk producers. One of the ways to do this is to target RSPO membership and certification across their estates.

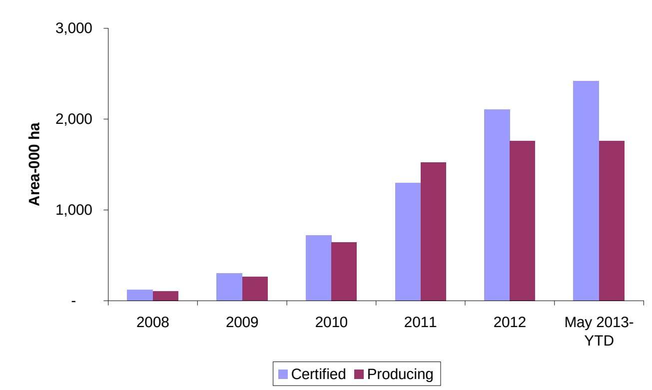
Exhibit 8
Strong Growth in RSPO Membership …



Source: RSPO, Company Data, Morgan Stanley Research

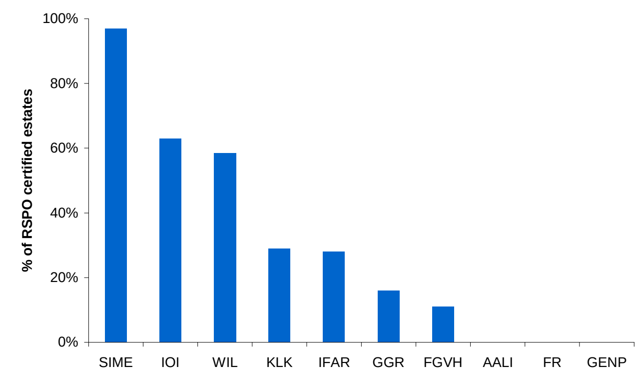
Increased RSPO certified PO: The steady growth in RSPO membership and certification of palm oil estates are evidence that the plantation companies are increasing their sustainability initiatives. All of our coverage plantation companies, except AALI, are members of RSPO. However, the extent of RSPO certification varies significantly across the group. SIME has the highest proportion of RSPO-compliant estates. The company has ~500,000 ha of certified palm oil estates that produced almost 2.5mn tons of RSPO-compliant palm oil in 2012. At the other end, FR and GENP have no certified estates even though they are RSPO members. FR has applied for two of its estates to be certified. Management is confident that FR will meet RSPO criteria as its estates, mills and refineries are ISCC certified. GENP maintains that its estates in Malaysia are “RSPO ready” and would not have any difficultly obtaining RSPO certification.

Exhibit 9
Plantation Companies Embracing RSPO with increasing Certified Area



Source: RSPO, Company Data, Morgan Stanley Research

Exhibit 10
Ratio of RSPO-certified Estates Among PO Plantation Companies



Source: RSPO, Company Data, Morgan Stanley Research

As part of the certification process, plantation companies and growers are required to commit to a time-bound plan to achieve 100% RSPO certification. SIME and KLK are highly committed to the RSPO, and target to have all their palm oil, including those from smallholders and outside FFB, certified by 2015.

Exhibit 11
Certification by RSPO and ISCC

	RSPO	ISCC
SIME	Y	Y
IOI	Y	Y
WIL	Y	Y
KLK	Y	Y
IFAR	Y	N
GAR	Y	Y
FELDA	Y	Y
FR	N	Y
GENP	N	N
AALI	N	N

Source: RSPO, ISCC, Company Data, Morgan Stanley Research

Exhibit 12

SIME and KLK Committed to 100% RSPO Certification by 2015

Company	1	2	3
SIME	2013	2015	2015
IOI	2013	ND	ND
WIL	2016	2019	ND
KLK	2015	2015	2015
IFAR	2016	2018	ND
GGR	2015	2015	ND
FGVH	2017	2020	2020
AALI	NA	NA	NA
FR	2020	ND	ND
GENP	2025	2025	2025

Notes: 1) Year expect to achieve 100% certification of mills and supply base/estates, 2) Year expected to achieve 100% RSPO certification of smallholders (plasma), 3) Year expected to achieve 100% RSPO certification of outside FFB (3rd parties). NA-Not applicable, ND-Not disclosed. Source: RSPO, Company Data, Morgan Stanley Research

Debate 2: Are Production Costs Rising due to Sustainability?

Market's view: No, recent share performance for the group has recovered after initial losses due to the haze. This suggests that investors believe long-term costs are unlikely to change materially, despite record-high PSI this summer.

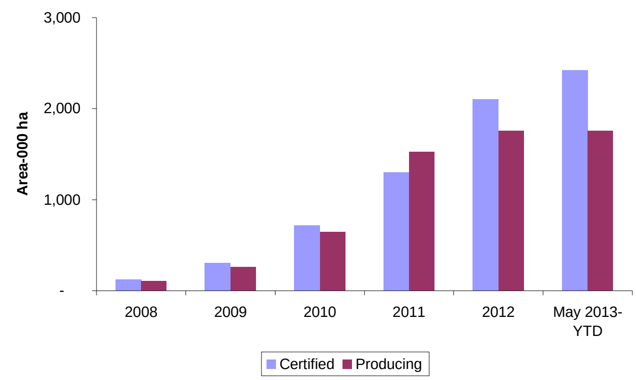
Our view: Yes, we forecast incremental production costs will rise by US$30/t as producers attempt to illustrate improved sustainable standards in agriculture practices by certification. However, some companies are further along in this process than others.

Most investors are indifferent to the issue of sustainability in the palm oil industry. The plantation companies appear to be managing sustainability issues well with no major impact on their operations or earnings. Some investors, such as the Norwegian Government Pension Fund Global, have taken a more proactive and aggressive approach by divesting their holdings in plantation companies that they deemed as failing to comply with sustainable production methods.

Increased costs of sustainability: In Debate 1, we noted our view that sustainability practices are here to stay. As shown in Exhibit 15, we estimate the costs of achieving and complying with RSPO certification add up to US$30/t to the cost of production. Over the long term, however, the cost to achieve higher standard of sustainability requirements could easily add another US$20/t to production costs, in our view, for a total long-term cost of US$50/t.

RSPO certification: RSPO certification includes adoption of a sustainable approach to the management and operation of oil palm plantations, along with the relevant audits. Approximately 50% of the costs or ~US$15/t of production (our estimate) relates to improved agricultural practices to meet sustainability objectives. We believe another US$5/t would involve training and monitoring to ensure the plantation manager and field workers comply with the sustainable agricultural practices. Plantations that already have good agricultural practices may not need to implement new policies or measures to meet sustainability objectives. In these cases, the incremental costs associated with achieving and complying with RSPO sustainability, if any, could be negligible. Finally, all RSPO certification estates require annual certification and maintenance, which we estimate would add an ongoing cost of ~US$10/t to the plantation companies overall cost of production.

Exhibit 13
Plantation Companies Are Embracing RSPO with Increasing Certified Area



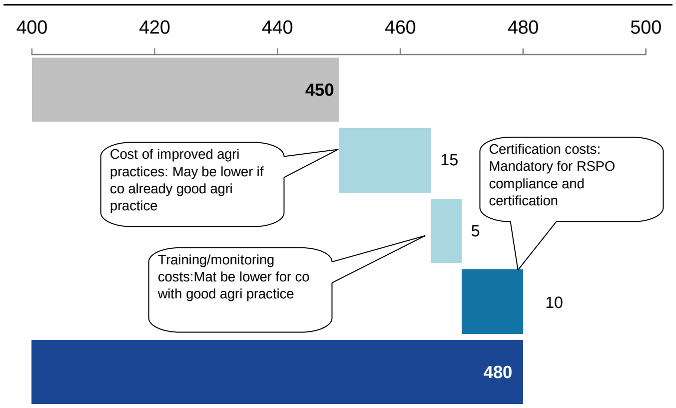
Source: RSPO, Company Data, Morgan Stanley Research

Exhibit 14
Incremental Costs of Sustainability Compliance

Type of costs	$/t
Improved agri practices	15
Training & monitoring	5
Audit & certification	10
Incremental costs for RSPO	**30**
Long term compliance costs	20
LT sustainability costs	**50**

Source: Company Data, Morgan Stanley Research

Exhibit 15
RSPO Certification Could Add US$30/t to Cost of Production



Costs of production is a hypothetical average for the industry
Source: Company Data, Morgan Stanley Research

Long-term compliance costs: We believe over the long term the industry will seek to achieve higher standards of compliance. Major palm oil users, such as Unilever, have a long-term target to buy 100% of palm materials from traceable sustainable sources. To achieve buyers' traceability requirements, palm oil companies will need to invest in identity preservation or segregation models to manage the flow of the palm oil within their supply chain.

Earnings implications: The costs involved in sustainability depend on the current level of RSPO certification and the incremental expenses of achieving and maintaining certification and sustainability standards. Of the companies that we cover, those with no RSPO certification currently are likely to see the biggest downside risks to our base-case forecasts.

Our base-case scenario for the group assumes that the companies have good agricultural practices, with some incremental costs needed to improve those methods, to employees, and to monitor scheme. In this case, we assume an incremental cost of production of US$15/t as of 2014, with a progressive increase to US$30/t by 2018 with higher compliance. In this case, the increased costs would trim an average of 5% from EPS across the group in 2014E and 6% from 2018E.

In our worst-case (bear-case) scenario, we assume the companies incur all the costs required to achieve 100% RSPO certification for their owned estates. In this scenario, the plantation companies would add US$50/t to their cost of production incremental to achieve a higher standard of sustainability compliance, resulting in a 7% hit to 2018E EPS.

Exhibit 16
Impact of Higher Production Cost on Earnings

	2014e			2018e		
EPS	**New**	**Old**	**chg**	**New**	**Old**	**chg**
IFAR	787	912	-14%	1,047	1,166	-10%
GENP	0.50	0.58	-14%	0.71	0.76	-7%
AALI	1,370	1,535	-11%	1,246	1,456	-14%
GGR	0.039	0.041	-3.4%	0.04	0.04	-9%
Felda	0.21	0.22	-3.2%	0.25	0.27	-6%
FR	0.15	0.16	-2.7%	0.20	0.21	-6%
KLK (SepYE)	1.10	1.11	-0.8%	1.01	1.07	-5%
IOI (Jun YE)	0.28	0.28	0.0%	0.33	0.33	0%
WIL	0.24	0.24	0.0%	0.33	0.33	0%
SIME (JunYE)	0.59	0.59	0.0%	0.62	0.62	0%
Average			-5%			-6%

Source: Morgan Stanley Research

Exhibit 17
Bear Case: 2018e EPS to Fall 8% on US$50/t of incremental Compliance Costs

Co name	% non RSPO	18e Vol-kt	Incremental cost-$mn	% of 18e EPS
AALI	100%	1,200	55.0	-18%
IFAR	72%	1,046	30.4	-12%
GGR	84%	2,070	88.0	-12%
FELDA	89%	1,004	44.7	-11%
GENP	100%	549	19.4	-8%
KLK	71%	1,190	33.1	-7%
FR	100%	935	31.2	-7%
IOI	37%	854	14.9	-2%
WIL	42%	1,300	22.1	-1%
SIME	3%	2,534	3.6	0%
Average impact				**-8%**

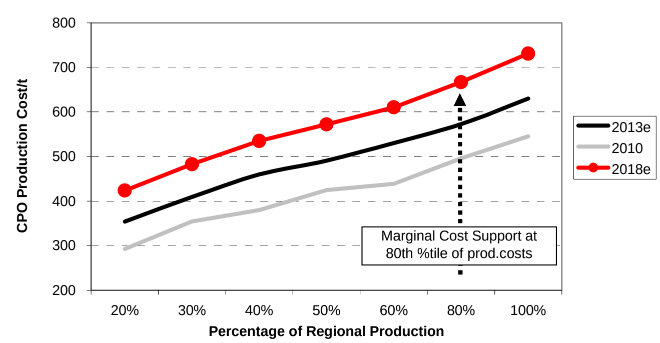
e = Morgan Stanley Research estimates Source: Company Data, Morgan Stanley Research

Bullish Inflection?

Unintended Impacts – Cost Inflation; Squeezing of Smaller Players; Slowed Planting: With the increased focus on sustainability issues among palm oil companies, we believe the costs to achieve sustainability objectives, not limited to RSPO certification and compliance, are likely to increase over time.

Squeeze out Smaller Players: As the costs of achieving sustainability increase, smallholders or small-scale plantations that lack the size and market access could have difficulty absorbing higher costs or passing them on to their customers. The increased costs could squeeze smallholders and producers out of the market.

Exhibit 18
Industry to Face Cost Inflation with Increased Sustainability Efforts



Source: Company Data, Morgan Stanley Research

Current Industry Certification Bodies

There are currently a few certification bodies for the palm oil industry. The focus and degree of recognition varies and hence the premium for the certified palm oil

Roundtable for Sustainable Palm Oil

The Roundtable for Sustainable Palm Oil (RSPO) is a non-profit organization formed in 2004 with the objective of promoting the growth and use of sustainable palm oil products through credible global standards and engagement of stakeholders. The RSPO represents stakeholders from the seven sector of palm oil industry – growers, processors or traders, consumer good manufacturers, retails, banks and investors, environmental or nature conservation, and social or development non-governmental organizations – to develop and implement global standards for sustainable palm oil.

International Sustainability and Carbon Certification scheme (ISCC)

The ISCC is based in the European Union's Renewable Energy Directive (RED) and German sustainability ordinances (BioNachV), and is the predominant certification scheme for palm oil used as a feedstock for biofuels. It includes a rigorous carbon accounting mechanism, which documents energy inputs and greenhouse gas outputs to ensure that biofuels are truly sustainable.

Indonesian Sustainable Palm Oil (ISPO)

In 2009, the Indonesian Government launched the Indonesian Sustainable Palm Oil (ISPO) standard. Based on existing Indonesian legislation, it is designed to ensure that all Indonesian oil palm growers, not just those exporting to foreign markets, conform to higher agricultural standards. It is the first national standard of its kind, and other countries have begun to consider implementing similar standards to ensure sustainable practices among all palm oil producers.

Green Palm

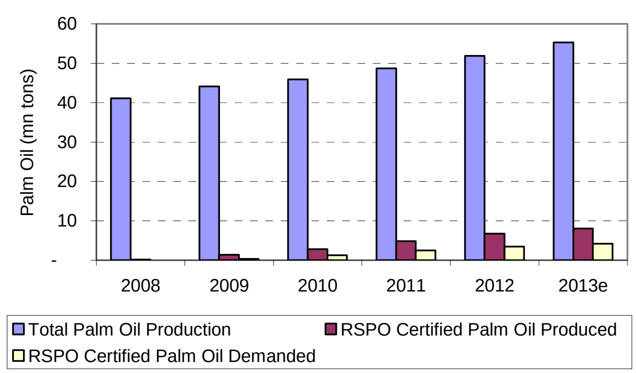
Green Palm is a system that provides a financial premium to producers that can prove they are environmentally and socially responsible, do not destroy primary forests and have developed plans to continually improve their operations.

Exhibit 19
Eight Principles of RSPO

1	Commitment to transparency
2	Compliance with applicable laws and regulations
3	Commitment to long-term economic and financial viability
4	Use of appropriate best practices by growers and millers
5	Environmental responsibility and conservative of natural resources and biodiversify
6	Responsible consideration of employees and of individuals and communities affected by growers and mills
7	Responsible development of new plantings
8	Commitment to continuous improvement in key areas of activities

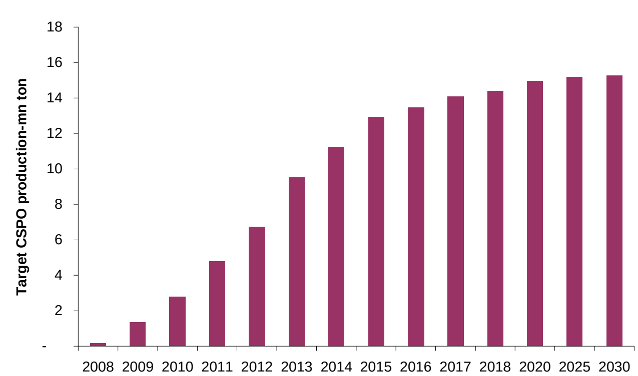
Source: RSPO, Company Data, Morgan Stanley Research

Exhibit 20
RSPO Palm Is a Small Portion of Total Palm Oil Production



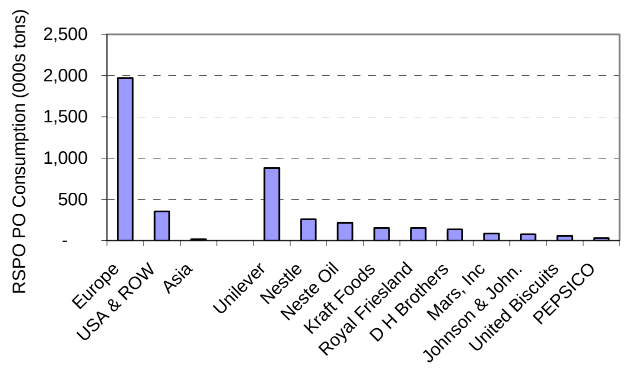
e = Morgan Stanley Research estimates
Source: RSPO, Company Data, Morgan Stanley Research

Exhibit 21
Certified Palm Oil: Industry Standard by 2030



Source: RSPO, Company Data, Morgan Stanley Research. Forecast from RSPO

Exhibit 22
RSPO PO Consumption by Country



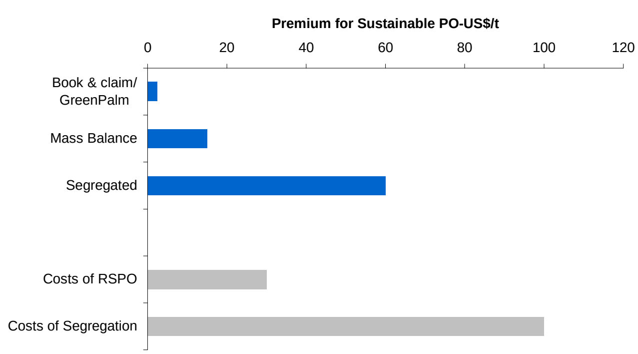
Source: RSPO, Company Data, Morgan Stanley Research

Exhibit 23
Long-term Cost of Compliance to Rise with Higher Standards

Supply chain mechanism	Overview	Compliance costs	Level of traceability
Identity Preserved	CSPO is separated and directly track throughout the system. No mixing from different source	Very high	Very high
Segregated	CSPO is separated and directly track throughout the system. Allow mixing from different sources	High	High
Mass Balance	CSPO is mixed with other sources. Keep record to monitor the amount of CSPO	Medium	Medium
Book & Claim	Producers sells CSPO certificates to end users. No separate tracking or monitoring	Low	Low

ND-Not disclosed Source: Company Data, Morgan Stanley Research

Exhibit 24
Premium for Sustainable Palm Oil Is Usually Not Sufficient to Cover the Incremental Costs



Source: Food Navigator, Company Data, Morgan Stanley Research

Wilmar: Extensive Supply Chain and Diversified Operations Cushion Higher Sustainability Costs; Reiterate OW

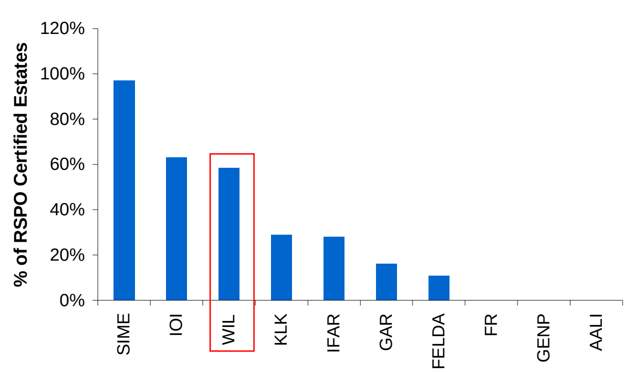
Reiterate OW: We believe WIL offers high substantiality scores with an attractive valuation. WIL ranks no. 2 on our sustainability score and yet the stock trades significantly below no. 1-ranked SIME at just 10x 1014e P/E. The company's currently high level of RSPO certification on its estates, extensive supply chain in the palm oil business and diversified business across different soft commodities cushion the impact of higher sustainability costs, in our view. We maintain our earnings forecasts and reiterate our PT of S$4.20.

High level of RSPO certification: As of June 30, 2012, 58% of Wilmar's palm estate was RSPO certified. The company aims to achieve 100% RSPO certification by 2016. We estimate the incremental cost of achieving 100% RSPO certification at ~US$12/t, which would lower the company's plantation margin by ~4%. We rank WIL no 3. in terms of the impact of higher sustainability costs on its 2014 earnings.

Extensive palm oil supply chain: The company has an extensive supply chain in palm oil covering not just upstream plantations but also downstream processing as well finished products in consumer cooking oils. We believe WIL's this gives the company a unique advantage that would be a challenge for its peers to replicate. With all its estates, milling and refinery facilities in Malaysia RSPO certified, we believe WIL has the ability and capacity to offer traceable, sustainable palm oil to targeted customers, who are willing to pay a premium for those advantages.

Exhibit 25

58% of WIL's Plantation Estates Are RSPO Certified

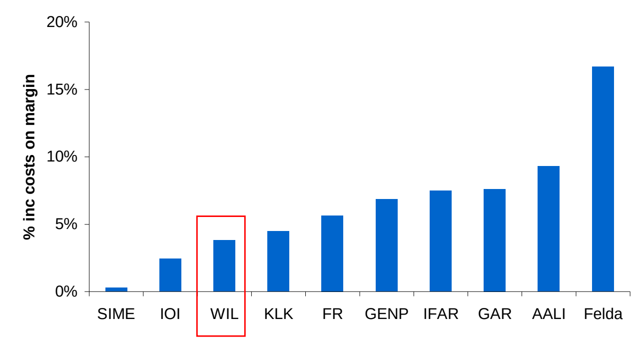


Source: Company Data, Morgan Stanley Research

Low reliance on upstream plantation: WIL derives the lowest percentage of its earnings from the upstream plantation among our coverage companies. We estimate that the upstream plantation segment will contribute ~19% of WIL 2014 profit before tax. In addition, the company has exposure to other soft commodities such as sugar and soybeans, which will contribute about 10% and 17% of WIL profit before tax in 2014, respectively, on our estimates. Therefore, we rank WIL no. 1 for the lowest reliance on the upstream plantation earnings.

Exhibit 26

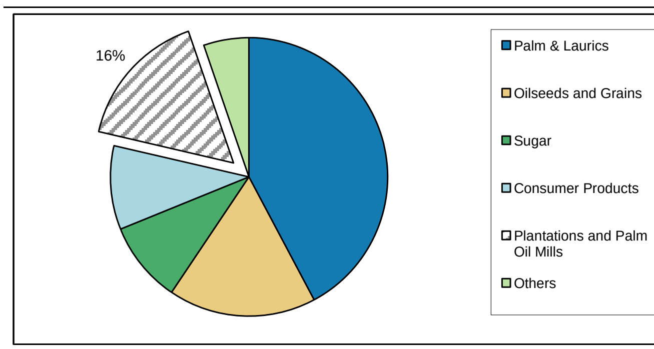
WIL Margin Better Cushioned to Incremental Costs of Sustainability



Source: Company Data, Morgan Stanley Research

Exhibit 27

Upstream Plantation Contribute Just 16% of WIL 2014e PBT

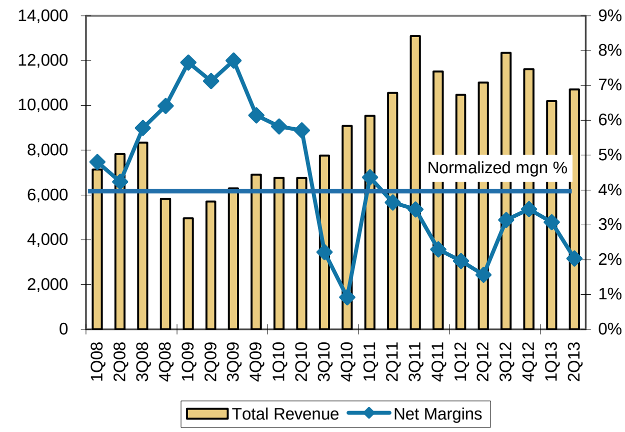


Source: Company Data, Morgan Stanley Research

Normalized View: WIL has a number of business segments currently earning below normalized margin levels, particularly its oilseeds and palm oil segments. For example, we forecast oilseeds 2013 pretax profit of just US$185mn, or 70% below levels achieved in 2008-09, and this is despite today's sales levels being nearly twice as high as they were then. As well, we forecast palm oil 2013 PBT of US$245mn, or nearly half the levels achieved as recently as 2011, despite sales volumes today being 20% higher. Using the recent stock price of S$3.16 and a five-year trailing P/E multiple of 15x, we calculate that investors are discounting earnings of just over US$1bn, which is just 2.3% of our 2013 sales forecast of US$45bn.

However, if we apply more normalized margins across its business segments, or about 4% on a group average, we calculate normalized net income exceeding US$1.8bn, or 80% higher. For those investors who can look out to 2014-15e, we believe many of the downward pressures on these key businesses are easing and will gradually recover.

Exhibit 28
WIL Margins at Cycle Trough Today; Half of Normalized Levels



Source: Company Data, Morgan Stanley Research

Exhibit 29
What's in the Price? Investor's Discount Cycle Trough Margins into Perpetuity

	2008	2009	2010	2011	2012	2013e	What's in the Price	5-yr Avg Mgn.
Revenue	29,145	23,885	30,378	44,710	45,463	45,383	45,383	45,383
Segmental PBT:								
Palm Oil	*327*	*380*	*385*	*471*	*382*	*245*	*250*	*428*
Palm Ref.	*645*	*693*	*587*	*586*	*771*	*875*	*391*	*670*
Oilseeds	*590*	*607*	*118*	*423*	*14*	*185*	*286*	*490*
Consum.	*75*	*225*	*150*	*85*	*157*	*205*	*119*	*203*
Sugar				*94*	*115*	*193*	*84*	*144*
Assoc.	*152*	*373*	*154*	*261*	*122*	*88*	*91*	*156*
Net Inc.	1,531	1,865	1,073	1,517	1,167	1,362	1,061	1,815
Net Mgn.	5.3%	7.8%	3.5%	3.4%	2.6%	3.0%	2.3%	4.0%
EPS (S$/sh)	0.35	0.42	0.23	0.31	0.23	0.26	0.21	0.35
Stk Px - YE	2.79	6.43	5.63	5.00	3.16	4.20	**3.16**	5.32
PE - FY1	8.1	15.5	24.9	16.3	13.7	16.1	15.0	15.0
					MS PT		5-yr PE	

e = Morgan Stanley Research estimates Source: Company Data, Morgan Stanley Research

Astra Agro: De-rate on Sustainability Concerns, Higher Costs and Lower Earnings Outlook

Double Downgrade to UW: We downgrade AALI from OW to UW and cut our PT from Rp21,500 to Rp14,500. Our PT change reflects a stock de-rating and lower earnings forecast. Our new PT implies 11x 2014e EPS, which is down from the 14x P/E multiple implied under our previous PT. We believe AALI will face a de-rating and the stock will trade at a lower multiple given an increased focus on sustainability and its unfavorable earnings growth trends. We reflect this de-rating by raising the costs of equity we apply in our model to 11.8% from 11% by assuming a higher beta for the stock of 1.1 vs. 1.0 previously.

AALI likely to step up its sustainability efforts: We acknowledge that AALI is a company with a strong reputation and long history of good corporate governance. Management plans to have all its estates certified to Indonesia Sustainability Palm Oil (ISPO) levels, from~20% at the end of 2012. It has no plans at this time to seek RSPO certification as management believes there is no immediate economic benefit yet. The company's customers are mostly domestic based and do not require nor they are willing to pay a premium for RSPO-certified palm oil.

However, we believe the company may also have to reposition its sustainability image to reduce rising regulatory risks. For example, ISPO is not an internationally recognized certification, AALI is currently not a member of RSPO and none of its plantation estates are certified, but we believe AALI is likely to step up its sustainability efforts given increased regulatory risk and enforcement from the governments.

Higher costs from increased sustainability efforts: We expect AALI to face the highest costs among the plantation companies under our coverage in addressing increased sustainability efforts. As noted, AALI is not a RSPO member and none of its palm oil estates are certified by any accredited organization. Given the current environment, we believe AALI will need to expand its sustainability efforts significantly and obtain certification for some, if not all, of its plantation estates. These efforts would increase AALI's cost of production and reduce its margins.

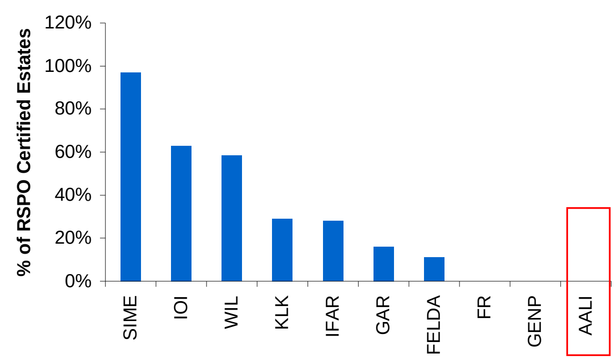
We forecast AALI's unit costs (to EBIT) to increase by ~US$15/t as of 2014, rising to ~US$30/t in 2018 as it repositions its sustainability practices.

Exhibit 30
AALI Earnings Changes

	FY 2013e			FY 2014e		
Rp bn	New	Old	chg %	New	Old	chg %
Sales	10,525	10,720	-2%	11,752	12,083	-3%
EBITDA	3,236	3,316	-2%	3,706	4,066	-9%
EBITDA %	31%	31%		32%	34%	
EBIT	2,685	2,765	-3%	3,051	3,411	-11%
EBIT %	26%	26%		26%	28%	
Net income	1,943	2,000	-3%	2,158	2,417	-11%
MW EPS	**1,234**	**1,270**	-3%	**1,370**	**1,535**	-11%
Consensus	1,374			1,528		
MS vs Con	*-10%*			*-10%*		

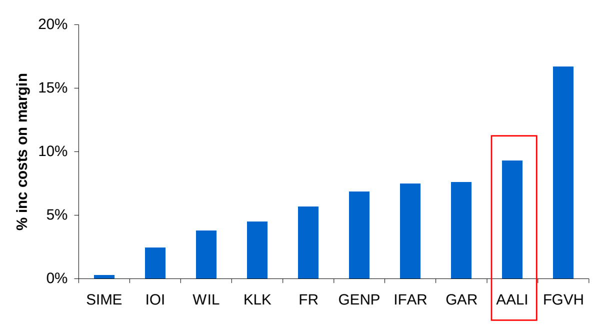
Source: Thomson Reuters, Morgan Stanley Research

Exhibit 31
None of AALI Plantation Estates Are RSPO Certified



Source: Company Data, Morgan Stanley Research

Exhibit 32
AALI Margins Are More Vulnerable to Incremental Costs of Sustainability



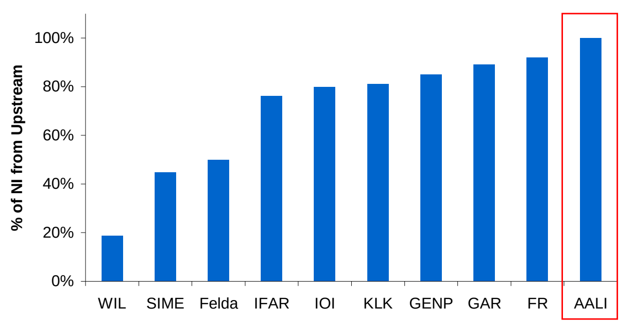
Source: Company Data, Morgan Stanley Research

As a result, we lower our 2014e EPS by 11% on these higher costs; our 2013-14 EPS forecasts are 10% below consensus estimates.

Unfavorable earnings trend: We forecast AALI's EPS to fall 19% from 2012 on our higher costs assumption and lower volume growth. Due to the advanced age of its plantation estate, we have penciled in a modest volume growth profile and do not expect sustainable upside surprise from higher volume. For instance, we do not expect the company to show the very strong double-digit volume growth in 2H13 it did in 2H12. Therefore, we expect investors to reduce the multiples paid on the stock given a lower earnings outlook.

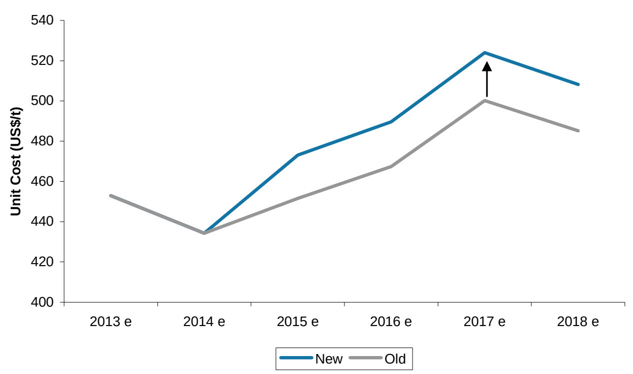
The stock is down 11% YTD, underperforming the JSE index (+2.2% YTD). However, we see more downside risks for the stock price as consensus factors in higher costs and lower earnings

Exhibit 33
AALI Is a Pure Play with Nearly All Its Earnings from Upstream Plantations



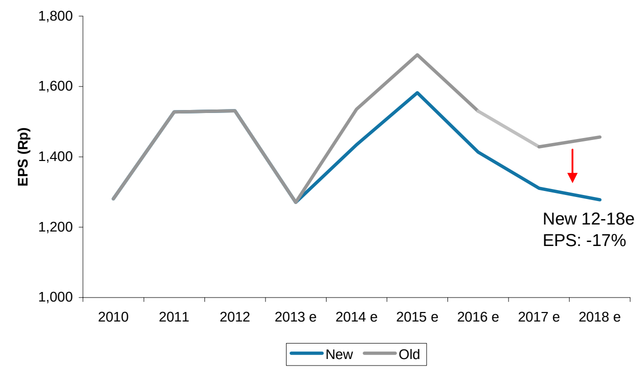
Source: Company Data, Morgan Stanley Research

Exhibit 34
A Step Up in Costs with Increased Sustainability Efforts…



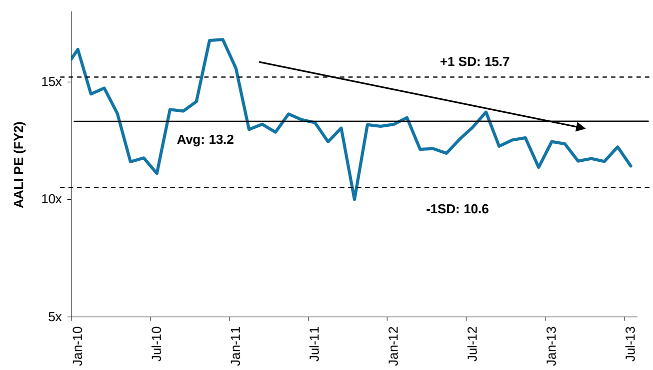
e = Morgan Stanley Research estimates Source: Company Data, Morgan Stanley Research

Exhibit 35
…Leading to Unfavorable Earnings Trends



e = Morgan Stanley Research estimates Source: Company Data, Morgan Stanley Research

Exhibit 36
…and Further De-rating



Source: Company Data, Morgan Stanley Research

Scenario analysis: We cut our bull-case valuation for AALI to Rp20,000 from Rp28,000, as we factor in lower earnings (-15% in 2014 from higher sustainability costs and lower-than-expected volume) and lower applied multiple (from 15x to 12x).

We cut our bear-case value to Rp11,500 from Rp14,000 to factor lower earnings (-12% in 2014 from higher sustainability costs and lower-than-expected volume). We also reduced the implied price to book multiple we apply from 1.9x to 1.6x.

Exhibit 37
Bear to Bull Earnings Drivers and Forecast

2014e	**Bear**	**Base**	**Bull**
Ind. CPO (US$/t)	700	900	1,025
Vol (kt)	946	1,051	1,104
ASP (US$/t)	590	759	865
Unit costs (US$/t)	434	457	503
EBIT/t (US$/t)	156	302	362
Financial forecast (Rp bn)			
Revenue	8,226	11,752	14,053
EBIT	1,420	3,051	3,837
NI	1,004	2,158	2,714
EPS (Rp)	638	1,370	1,723
Implied 14e PE (x)	18.0	10.6	11.6
Valuation (Rp/sh)	11,500	14,500	20,000

Source: Morgan Stanley Research

Genting Plantation: Downgrade on Sustainability Upgrading, Expensive Valuation, Slow Monetarisation of Property Assets

Double Downgrade to UW: We downgrade GENP from OW to UW and cut our PT from RM11.6 to RM8.1. Our PT change reflects a stock de-rating, lower earnings forecasts and reduced valuation for the property assets. Our new PT implies 15x 2014e EPS, which is down from the 20x P/E multiple we implied under our previous PT. We believe GENP will face a de-rating and the stock will trade at a lower multiple given an increased focus on sustainability. We reflect this de-rating by raising the cost of equity we apply in our model to 9.0% from 8.5% by assuming a higher beta for the stock of 1.0 vs. 0.9 previously.

GENP likely to step up its sustainability efforts: We acknowledge that GENP's Malaysia estates may meet the criteria to achieve RSPO certification. The current lack of certification suggests to us that the company may lack a defense mechanism against unsustainable practices. Therefore, we believe the company may also have to reposition its sustainability image to reduce rising regulatory risks. Although the company has no immediate plans to seek certification, given increased regulatory risk and enforcement from the governments, we believe GENP is likely to step up its sustainability efforts.

Higher costs from increased sustainability efforts: We expect GENP to face the increased costs among the plantation companies under our coverage in addressing increased sustainability efforts. We believe GENP will need to expand its sustainability efforts significantly and obtain certification for some, if not all, of its plantation estates. These efforts would increase GENP's cost of production and reduce its margins.

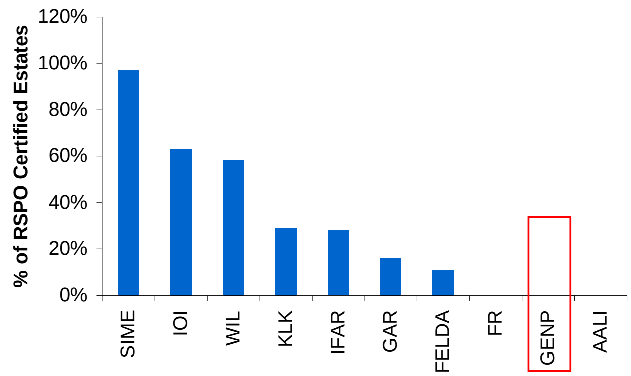
Exhibit 38
GENP Earnings Changes

	FY 2013e			FY 2014e		
RM mn	**New**	**Old**	**chg %**	**New**	**Old**	**chg %**
Sales	1,279	1,279	0%	1,404	1,404	0%
EBITDA	451	481	-6%	523	605	-13%
EBITDA %	35%	38%		37%	43%	
EBIT	385	414	-7%	452	533	-15%
EBIT %	30%	32%		32%	38%	
PTP	391	455	-14%	492	575	-14%
MW Net income	331	355	-7%	379	442	-14%
MW EPS (RM)	**0.44**	**0.47**	-7%	**0.50**	**0.58**	-14%
Consensus	0.44 e			0.54 e		
MS vs Con	*-2%*			*-8%*		

Source: Thomson Reuters, Morgan Stanley Research

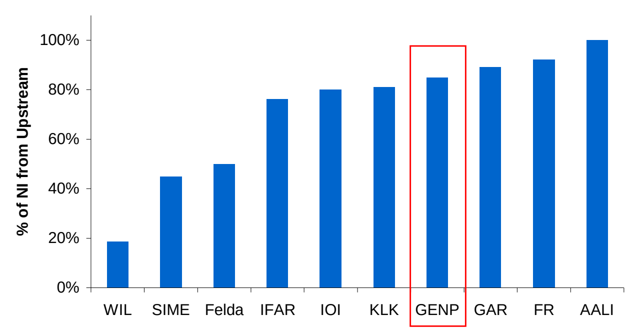
We forecast GENP's unit costs (to EBIT) to increase by ~US$15/t as of 2014, rising to ~US$30/t in 2018 as it repositions its sustainability practices. As a result, we lower our 2014e EPS by 14% on these higher costs; our 2013-14 EPS forecasts are 2% and 8% below consensus estimates, respectively.

Exhibit 39
None of GENP Plantation Estates Are RSPO Certified



Source: Company Data, Morgan Stanley Research

Exhibit 40
More than 85% of GENP Earnings from the Upstream Plantation



Source: Company Data, Morgan Stanley Research

Slow monetization of property assets: One of our previous investment positives for GENP was its attractive property assets that we believed investors may have overlooked. GENP owns ~4,000 ha of freehold land in Peninsula Malaysia, mostly in the Iskandar Development Region (IDR), which we calculated could be worth up to RM5.40/sh assuming a conservative price of just RM10 per square foot.

However, GENP has been slow in monetizing its property assets. The company's property business contributed ~10-15% of its revenue and operating profit in 2012. We forecast ~RM200mn of sales or ~200ha from the property business for the next three years. Under these assumptions, it would take 15-20 years for GENP to full monetize its property assets. Therefore, we now think that investors are unlikely to assign a higher valuation for its property business, and we have adopted a more conservative value of ~20% of our fair value or RM1.1/sh in our base case. Our new property value of RM1.1 is approximately 16x GENP's property EPS of RM 0.07 in 2014E.

No turnaround for the biotech business in the foreseeable term: Finally, we are now taking a more conservative view on GENP's biotech business. We forecast the losses to sustain near 2012 levels until 2015 instead of falling over the next three years. While the biotech business has significant potential, we do not anticipate a meaningful commercialization of GENP's research and development (R&D) effort until 2015. In 1Q13, the biotech segment posted a higher loss as it intensified its R&D initiatives, suggesting that losses are likely to continue for the foreseeable future.

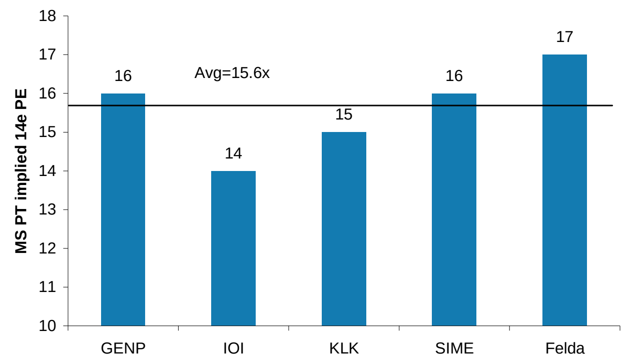
Sum-of-the-parts valuation: Our base-case price target GENP is RM8.1 which is comprised of RM7/sh from our earnings-based residual income valuation model and RM1.1/sh for its property assets. Our implied 2014e P/E for GENP is ~16x, which is slightly above the average for the Malaysian plantation stocks. While GENP is a smaller company than other Malaysia CPO stocks under our coverage, we believe investors are willing to pay a premium for its younger estates, which offer faster earnings growth, and its property assets.

Scenario analysis: We cut our bull-case valuation to RM13.5 from RM17, as we factor in lower earnings (-14% in 2014E from higher sustainability costs) and lower property valuation from RM5.4/sh to RM2.7/sh).

We cut our bear-case valuation to RM6 from RM7 to factor in lower earnings forecasts (-14% in 2014e on higher sustainability costs). In this scenario, we assign zero value to the property assets

Exhibit 41

GENP New Implied 2014e P/E of 16x Is Slightly above the Average for Malaysian Plantation Stocks



e = Morgan Stanley Research estimates Source: Company Data, Morgan Stanley Research

Exhibit 42

Changes in GENP Price Target Components

SOTP	New	Old	chg
Earnings based RI valuation	7.0	8.9	-21%
Property	1.1	2.7	-59%
Total	**8.1**	**11.6**	**-30%**

Source: Morgan Stanley Research

Exhibit 43

Bear to Bull Earnings Drivers and Forecasts

2014e (RM mn)	Bear	Base	Bull
CPO price	700	900	1,025
Vol-kt	369	388	427
Mgn	213	363	513
CPO EBIT	236	423	657
Financial			
Revenue	823	1,404	2,132
EBIT	265	452	686
NI	222	379	576
EPS	0.29	0.50	0.76
Valuation	6.00	8.10	13.50
Implied 14e PE (x)	20.51	16.22	17.80

CPO price/Mgn in US$/t; EPS-RM

Source: Morgan Stanley Research

Exhibit 44

ASEAN Plantation Attractive Score

Morgan Stanley ASEAN Plantation: Ranked on Attractiveness Score

		Earnings Trends			Absolute Multiples			Stk perf.		Ratings & PTs				Size & liquidity	
Company name	**SCORE**	**MS vs Consensus '14e**	**Consensus 3-mths NTM EPS Revisions**	**EPS CAGR '12-15e**	**P/E 14e**	**EV/ EBITDA '14e**	**Div Yld '14e**	**3-mo Perf.**	**Price vs 200 Day MA**	**Rating**	**Stock Price**	**Price target**	**Return to PT**	**Mkt cap US$mn**	**Avg daily trading US$mn**
ASEAN Plantation:		**(4%)**	**(4%)**	**9%**	**13.9 e**	**10.0 e**	**2.4 e**	**(3%)**	**(5%)**				**4%**	**6.6**	**13.1**
NOBLE	1	(0%) e	(12%)	18% e	7.1 e	5.7 e	2.2 e	(21%)	(21%)	Overweight	0.91	1.25	38%	4.7	30.2
First Resources	2	(1%) e	1%	9% e	9.0 e	6.2 e	2.2 e	(6%)	(13%)	Overweight	1.67	2.25	35%	2.1	3.1
WILMAR	3	0% e	2%	15% e	10.5 e	11.0 e	2.5 e	(5%)	(6%)	Overweight	3.14	4.20	34%	16.0	28.6
Golden Agri	4	0% e	(6%)	13% e	11.1 e	9.1 e	2.6 e	0%	(9%)	Overweight	0.55	0.65	18%	5.6	32.5
IndoAgri	5	(4%) e	(15%)	10% e	9.2 e	6.7 e	0.9 e	(22%)	(23%)	Overweight	0.92	1.15	25%	1.0	2.3
Olam International	6	(10%) e	0%	17% e	10.7 e	9.5 e	3.1 e	0%	(3%)	Equal-Weight	1.65	1.75	6%	3.1	18.6
Astra Agro	6	(10%) e	(1%)	(0%) e	12.5 e	8.0 e	3.6 e	(6%)	(9%)	Underweight	17300.00	14500.00	(16%)	2.7	2.3
KLK	8	(4%) e	(2%)	5% e	19.4 e	11.3 e	2.6 e	(1%)	1%	Underweight	21.50	16.00	(26%)	7.2	5.5
Sime Darby	9	(3%) e	(3%)	(3%) e	16.2 e	9.5 e	3.1 e	1%	1%	Equal-Weight	9.50	9.30	(2%)	17.9	21.6
IOI Corporation	10	(3%) e	2%	4% e	19.6 e	14.4 e	2.3 e	10%	10%	Underweight	5.56	3.95	(29%)	11.2	7.0
Felda	11	(8%) e	(9%)	0% e	21.6 e	15.1 e	2.3 e	(2%)	(2%)	Underweight	4.50	3.65	(19%)	5.2	4.6
Genting Plan	12	(8%) e	(2%)	14% e	20.0 e	13.8 e	1.1 e	13%	14%	Underweight	10.08	8.10	(20%)	2.4	1.2
ASEAN Markets				**9%**	**14.6 e**	**NA**	**NA**								
MSCI - Indonesia	3/8			12%	15.1 e			16%	0%	Attractive	5,884	5,884	0%		
MSCI - Malaysia	3/8			9%	14.4 e			3%	(2%)	NA	588				
MSCI - Singapore	3/8			6%	14.3 e			6%	(1%)	Negative	1,731	1,718	-1%		

Note: AALI stock price are in Rp, Felda, Sime Darby, Genting, KLK and IOI stock prices are in Malaysian Ringgit and the rest in Singapore dollars

ASEAN Markets EPS CAGR is for 2012-14e

Note: Score ranks above attractiveness measures in bold on an equal-weight basis.

e = Morgan Stanley Research Estimates

For valuation methodology and risks associated with any price targets above, except for the 10 stocks on pages 41-43, please email morganstanley.research@morganstanley.com with a request for valuation methodology and risks on a particular stock. Past performance is no guarantee of future results. Results shown do not include transaction costs.
Source: Company Data, Morgan Stanley Research (e) estimates Prices as of July 16, 2013 close

Wilmar – Financial Summary

Profit and Loss Statement					
YE Dec 31 (US$ mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Total Revenue	**44,710**	**45,463**	**45,383**	**52,917**	**57,823**
Gross Profit	3,871	3,891	4,050	4,492	5,144
Operating Expenses	(1,685)	(2,246)	(2,256)	(2,630)	(2,874)
Operating Profit	2,186	1,645	1,795	1,862	2,271
Non-Operating Inc / (Exps)	(107)	10	(4)	122	82
Profit Before Tax-reported	**2,079**	**1,655**	**1,790**	**1,983**	**2,352**
PBT -clean	**1,920**	**1,561**	**1,790**	**1,983**	**2,352**
Palm and Laurics	*586*	*771*	*875*	*840*	*800*
Oilseeds and Grains	*423*	*14*	*185*	*336*	*525*
Consumer Products	*85*	*157*	*205*	*192*	*313*
Plantations & Palm Oil Mills	*471*	*382*	*245*	*320*	*401*
Sugar-milling	*49*	*14*	*66*	*76*	*81*
Sugar-M&P	*46*	*101*	*128*	*116*	*125*
Others	*193*	*31*	*45*	*47*	*50*
Associates contribution	*185*	*123*	*137*	*160*	*181*
Unallocated exp	*(117)*	*(32)*	*(94)*	*(104)*	*(124)*
Miscellaneous					
Tax	(379)	(334)	(358)	(397)	(470)
Minority Interests	(99)	(65)	(70)	(78)	(93)
Reported Net Income	1,601	1,255	1,362	1,509	1,789
MW Net Income	**1,517**	**1,167**	**1,362**	**1,509**	**1,789**
MW Net Income (S$ mn)	**1,964**	**1,471**	**1,666**	**1,846**	**2,189**
# of shares (mn)	6,398	6,401	6,396	6,396	6,396
MW EPS US$	0.24	0.18	0.21	0.24	0.28
MW EPS (S$)	**0.31**	**0.23**	**0.26**	**0.29**	**0.34**
DPS (S$)	0.06	0.05	0.06	0.08	0.11
DP Ratio	25.7%	27.4%	26.6%	32.7%	38.8%

Cash Flow Statement					
YE Dec 31 (US$ mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Profit before tax	2,183	1,590	1,790	1,983	2,352
Depreciation	478	543	605	646	685
Change in working cap	22	(581)	1,720	(1,337)	(802)
Others	(735)	(484)	(530)	(595)	(698)
Cash flow from Operations	**1,948**	**1,068**	**3,586**	**698**	**1,538**
Capex	(1,482)	(1,690)	(1,368)	(1,405)	(1,419)
Others	(587)	(339)	0	0	0
Cash flow from Investments	**(2,068)**	**(2,028)**	**(1,368)**	**(1,405)**	**(1,419)**
Equity raised / (repaid)	47	31	0	0	0
Debt raised / (repaid)	3,762	8,079	0	0	0
Dividend paid	(309)	(299)	(337)	(415)	(574)
Others	(2,501)	(6,602)	0	0	0
Cash flow from Financing	**1,000**	**1,210**	**(337)**	**(415)**	**(574)**
Net change in cash	879	249	1,881	(1,122)	(455)
Ending cash and equivalents	7,898	8,562	10,443	9,320	8,865
Free cash flow	**(121)**	**(961)**	**2,218**	**(708)**	**119**
Net debt / (cash)	**12,991**	**13,683**	**11,803**	**12,925**	**13,380**

Balance Sheet					
YE Dec 31 (US$ mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Cash and equivalents	7,898	8,562	10,443	9,320	8,865
Account receivables	3,503	3,953	2,265	2,653	2,886
Inventory	7,265	7,137	7,096	8,314	9,044
Others	5,098	4,167	4,167	4,167	4,167
Current Assets	**23,765**	**23,819**	**23,971**	**24,454**	**24,962**
Biological assets	1,846	1,970	2,075	2,187	2,299
Net fixed assets	7,469	8,924	9,582	10,229	10,851
Intangible assets	4,410	4,458	4,458	4,458	4,458
Others	2,150	2,748	2,885	3,045	3,226
Long term assets	**15,875**	**18,101**	**19,000**	**19,919**	**20,834**
ST debt	18,409	17,740	17,740	17,740	17,740
Account payables	1,710	1,580	1,571	1,840	2,002
Others	2,011	2,093	2,093	2,093	2,093
Current Liabilities	**22,130**	**21,413**	**21,404**	**21,674**	**21,835**
LT debt	2,480	4,505	4,505	4,505	4,505
Others	782	807	807	807	807
Long term liabilities	**3,262**	**5,312**	**5,312**	**5,312**	**5,312**
Minority Interests	878	849	885	924	970
Shareholders' equity	**13,370**	**14,346**	**15,371**	**16,464**	**17,679**
BVPS (S$)	**2.50**	**2.71**	**2.83**	**2.94**	**3.15**

Ratio Analysis					
YE Dec 31 (US$ mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Sales growth	**47.2%**	**1.7%**	**-0.2%**	**16.6%**	**9.3%**
Gross margins	8.7%	8.6%	8.9%	8.5%	8.9%
Operating margins	**4.9%**	**3.6%**	**4.0%**	**3.5%**	**3.9%**
EBITDA margins	6.0%	4.8%	5.3%	4.7%	5.1%
Reported net margins	3.6%	2.8%	3.0%	2.9%	3.1%
MW net margins	**3.4%**	**2.6%**	**3.0%**	**2.9%**	**3.1%**
Dupont Analysis (Ex Goodwill)					
Op. ATO	1.7x	1.4x	1.3x	1.5x	1.6x
Net margin	3.4%	2.6%	3.0%	2.9%	3.1%
Leverage	3.5x	3.5x	3.4x	3.2x	3.0x
ROE - YE BV	**19.7%**	**12.6%**	**13.4%**	**13.5%**	**14.6%**
ROE - YE BV (Inc. GW)	**12.8%**	**8.7%**	**9.5%**	**9.8%**	**10.9%**
Solvency and Liquidity					
Gross debt/equity (x)	147%	146%	137%	128%	119%
Net debt (cash)/equity (%)	**91%**	**90%**	**73%**	**74%**	**72%**
EBITDA coverage (x)	5.3x	3.6x	3.9x	4.1x	4.8x
Current ratio (x)	1.1x	1.1x	1.1x	1.1x	1.1x
Quick ratio (x)	0.5x	0.6x	0.6x	0.6x	0.5x

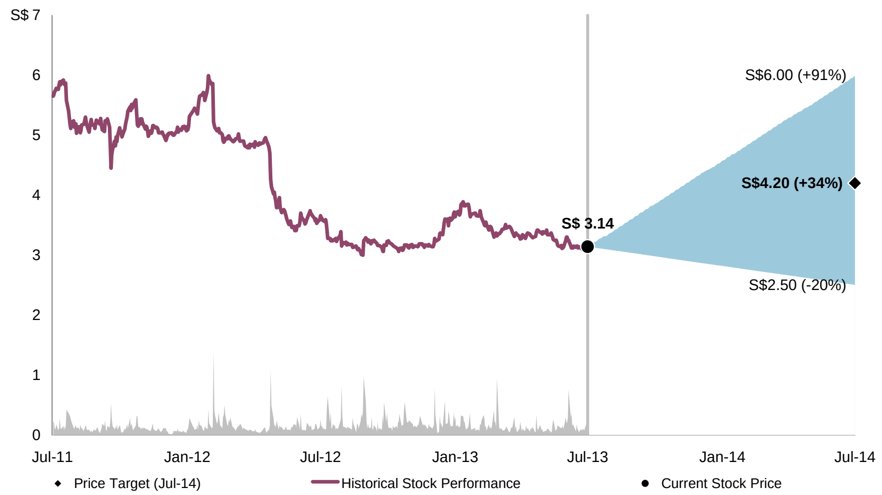
Key drivers	**2011**	**2012**	**2013e**	**2014e**	**2015e**
FFB nucleus-kt	4,073	4,210	4,529	4,592	4,995
CPO Blended Vol-Total (kt)	1,986	2,134	2,389	2,587	2,876
CPO Blended Vol-Own (kt)	937	960	1,046	1,065	1,159
ASP	928	810	691	778	821
Unit Costs(to EBIT)	425	412	430	450	450
Margin	503	398	261	328	371
CPO FOB MY- CY (US$/t)	1,087	937	800	900	950
Land bank-k ha	459	459	459	459	459
Total planted area (nucleus) -k h	247	256	264	272	278
Mature planted - k ha	205	222	226	224	227
Mature planted -%	83%	87%	86%	82%	82%
FFB yield- t/ha	19.8	18.9	20.0	20.5	22.0
OER- %	20.6	20.4	20.7	20.8	20.8
Oil yield-t/ha	4.1	3.9	4.1	4.3	4.6
Age	11.7	11.9	12.7	13.7	14.4

Key drivers	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Oilseed & grains					
Vol-kt	19,939	19,551	21,780	24,013	26,248
PBT mgn -US$/t	21.2	0.7	8.5	14.0	20.0
Palm & Laurics					
Vol-kt	20,306	23,115	25,000	28,000	28,560
PBT mgn -US$/t	28.9	33.4	35.0	30.0	28.0
Sugar					
Miiled Vol-mt	2.7	2.8	3.0	3.1	3.1
PBT mgn -US$/t	18.2	5.2	22.0	25.0	26.0
	48.5	14.3	65.8	76.5	81.4
Refined sugar Vol-mt	2.5	3.7	4.4	4.6	4.8
PBT mgn -US$/t	18.6	27.1	29.0	25.0	26.0
	45.7	100.9	127.6	115.5	124.9
Consumer products					
Vol-kt	4,397	4,608	5,116	5,655	6,261
PBT mgn -US$/t	19.4	34.1	40.0	34.0	50.0

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research Estimates

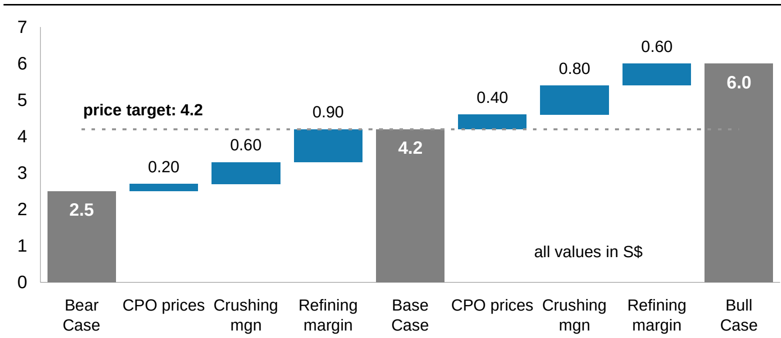
Risk-Reward Snapshot: Wilmar International (WLIL.SI, S$3.14, OW, PT S$4.20)

Risk-Reward Skewed to the Upside on Improved Earnings Outlook



Price Target S$4.20		Derived from base-case scenario.
Bull Case S$6.00	14x Bull Case 14e EPS	**Stock Recovers to Feb-12 Levels:** Easing Chinese food inflation and lower soybean prices allow continued oilseed crush margins (US$9/t above base), better refining margin (US$5/t above) and bull case CPO pricing (US$1025/t) lift EPS 33% above base case.
Base Case S$4.20	14x Base Case 14e EPS	**Recovery in margins:** Reduced food inflation in China allows Wilmar's Chinese crushing margins to begin to recover to more normalized levels by 2014. With earnings momentum recovering, we also see investor optimism.
Bear Case S$2.50	10x Bear Case 14e EPS	**Challenging industry conditions and margins contract:** Margins remain depressed in oilseed crushing (US$6/t below base) as food inflation continues, capping pricing power due to government policies. We apply our bear-case CPO pricing of US$700/t on weak demand. Weakness in refining margin (US$10/t below) with increased industry supply. Bear case EPS ~25% below base case.

Higher CPO Prices and Crushing/Refining Driver Bull Case



Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis

- Management guidance is positive on a 2H13 earnings recovery in sugar milling, consumer oils and CPO volumes.
- Oilseed crushing margins to recover from cyclical trough. Margins in this business recover as food inflation (CPI) eases.

Key Value Drivers

- Lower soybean prices should reduce the government effect on pricing, allowing capped pricing and margins in Wilmar's oilseed crushing business to recover toward the five-year average PBT of nearly S$400mn and peak PBT of over S$600mn.
- Leverage to net margin recovery: WIL is highly leveraged to a margin recovery, with every 1% gain in net margin adding S$0.10 to EPS and S$1.65/sh to the stock price using its historical average multiple.

Potential Catalysts

- Easing Chinese government price controls to allow further increases in cooking oil prices.

Key Downside Risks

- Continued elevated food inflation in China, depressing margins.
- Continued government policy that caps pricing.

Astra Agro – Financial Summary

Profit & Loss Statement

YE Dec 31 (Rp bn)	2011	2012	2013e	2014e	2015e
CPO sales	9,510	10,426	9,954	11,051	11,839
PK sales	1,219	1,063	748	831	890
Others	43	75	(178)	(130)	(139)
Revenue	**10,773**	**11,564**	**10,525**	**11,752**	**12,590**
Gross Profit	3,935	4,357	3,485	4,122	4,743
Operating Expenses	(739)	(904)	(799)	(1,071)	(1,355)
Operating Profit	**3,196**	**3,454**	**2,685**	**3,051**	**3,388**
Non-Operating Inc/(Exps)	137	71	7	(61)	(80)
Profit Before Tax	**3,333**	**3,525**	**2,693**	**2,991**	**3,308**
Tax	(834)	(1,005)	(673)	(748)	(827)
Minority Interests	(93)	(110)	(77)	(85)	(94)
Reported Net Income	2,406	2,410	1,943	2,158	2,387
MW Net Income	**2,406**	**2,410**	**1,943**	**2,158**	**2,387**
# of shares (mn)	1.57	1.57	1.57	1.57	1.57
MW EPS (Rp)	**1,528**	**1,531**	**1,234**	**1,370**	**1,516**
Reported EPS (Rp)	1,528	1,531	1,234	1,370	1,516
DPS (Rp)	995	685	555	617	682
DPR (%)	65%	45%	45%	45%	45%

Cash Flow Statement

YE Dec 31 (Rp bn)	2011	2012	2013e	2014e	2015e
Net Profit	2,406	2,410	1,943	2,158	2,387
Depreciation	377	537	551	655	661
Change in working cap	104	(469)	20	(61)	(24)
Others	276	132	77	85	94
Cash flow from Operations	**3,162**	**2,610**	**2,591**	**2,837**	**3,118**
Capex	(1,086)	(1,775)	(1,422)	(1,437)	(1,677)
Addtions to Biological Assets	(882)	(855)	(904)	(832)	(728)
Others	(59)	-	-	-	-
Cash flow from Investments	**(2,027)**	**(2,631)**	**(2,326)**	**(2,269)**	**(2,405)**
Equity raised / (repaid)	-	-	-	-	-
Debt raised / (repaid)	(6)	920	900	200	500
Dividend paid	(1,480)	(1,456)	(1,010)	(907)	(1,006)
Others	(52)	(58)	-	-	-
Cash flow from Financing	**(1,538)**	**(594)**	**(110)**	**(707)**	**(506)**
Net change in cash	(402)	(615)	154	(139)	207
Ending cash and equivalents	838	228	382	243	450
Free cash flow	**1,135**	**(21)**	**264**	**568**	**712**
Net debt / (cash)	**(838)**	**744**	**1,490**	**1,829**	**2,122**

Balance Sheet

YE Dec 31 (Rp bn)	2011	2012	2013e	2014e	2015e
Cash and equivalents	838	228	382	243	450
Account receivables	16	50	46	51	55
Inventory	770	1,249	1,220	1,322	1,360
Others	233	254	254	254	254
Current Assets	**1,857**	**1,780**	**1,901**	**1,870**	**2,118**
Biological assets	4,278	4,976	5,789	6,510	7,109
Net fixed assets	3,424	4,919	5,880	6,773	7,919
Others	645	745	745	745	745
Long term assets	**8,347**	**10,639**	**12,415**	**14,028**	**15,773**
ST debt	0	972	1,472	1,472	1,772
Account payables	522	565	552	599	616
Others	946	1,063	1,063	1,063	1,063
Current Liabilities	**1,468**	**2,601**	**3,087**	**3,134**	**3,451**
LT debt	0	0	400	600	800
Others	311	454	454	454	454
Long term liabilities	**311**	**454**	**854**	**1,054**	**1,254**
Shareholders' equity	8,140	9,029	9,962	11,213	12,594
Minority Interest	287	336	413	498	592

Ratios

	2011	2012	2013e	2014e	2015e
Sales growth	**21.8%**	**7.3%**	**-9.0%**	**11.7%**	**7.1%**
Gross margins	36.5%	37.7%	33.1%	35.1%	37.7%
Operating margins	**29.7%**	**29.9%**	**25.5%**	**26.0%**	**26.9%**
EBITDA margins	33.2%	34.5%	30.8%	31.5%	32.2%
Reported net margins	22.3%	20.8%	18.5%	18.4%	19.0%
MW net margins	**22.3%**	**20.8%**	**18.5%**	**18.4%**	**19.0%**
Dupont Analysis					
Op. ATO	1.4x	1.3x	1.0x	0.9x	0.9x
Net margin	22.3%	20.8%	18.5%	18.4%	19.0%
Leverage	1.1x	1.1x	1.2x	1.3x	1.3x
ROE - YE BV	**33.4%**	**29.6%**	**21.5%**	**21.7%**	**21.3%**
Solvency and Liquidity					
Gross debt/equity (%)	0%	11%	19%	18%	20%
Net debt (cash)/equity (%)	**-10%**	**8%**	**15%**	**16%**	**17%**
EBITDA coverage (x)	-0.4x	5.6x	0.5x	0.3x	0.3x
Current ratio (x)	1.3x	0.7x	0.6x	0.6x	0.6x
Quick ratio (x)	0.6x	0.1x	0.1x	0.1x	0.1x

Key drivers

	2011	2012	2013e	2014e	2015e
FFB nucleus (kt)	3,570	4,132	4,203	4,161	4,253
FFB plasma & 3rd party (kt)	819	1,126	1,160	1,195	1,231
CPO production (kt)	1,268	1,476	1,501	1,507	1,530
Blended CPO Vol-Total (kt)	1,355	1,540	1,604	1,611	1,635
Blended CPO Vol-Own (kt)	910	1,044	1,062	1,051	1,074
ASP (US$/t)	886	808	683	759	801
Unit Costs(to EBIT)	494	452	419	457	473
EBIT Mgn (US$/t)	391	356	263	302	328
Mgt CPO ASP-Rp/kg	7,576	7,322			
Mgt cash cost of prod-US$/t					
CPO FOB MY -US$/t	1,087	937	800	900	950

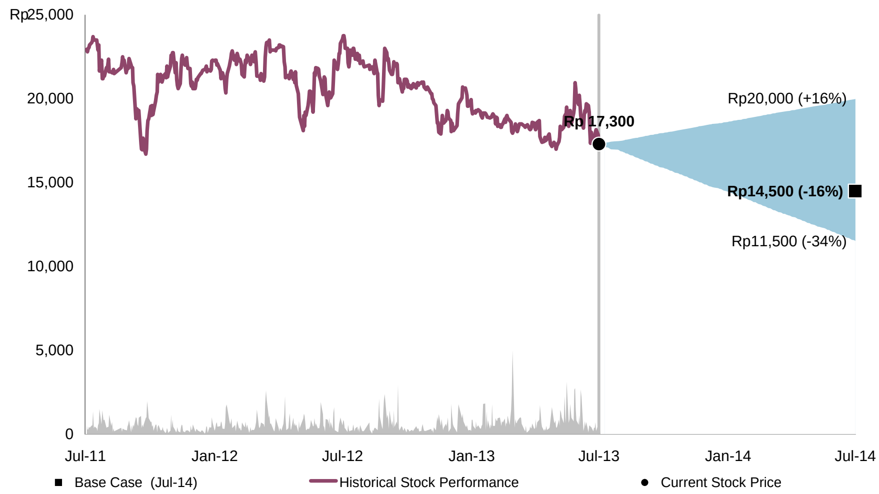
Plantation metrics

	2011	2012	2013e	2014e	2015e
Land bank-k ha	221	221	228	237	251
Total planted area (nucleus) -k ha	207	213	226	231	238
Mature planted - k ha	161	175	179	176	182
Mature planted -%	78%	82%	79%	76%	76%
Age	14.2	14.2	15.1	15.7	16.0
EBIT per mat.ha-US$/ha	1,960	1,877	1,378	1,588	1,712
Productivity					
FFB yield- t/ha	22.2	23.6	23.5	23.6	23.4
OER- %	22.6	22.3	22.3	22.3	22.3
Oil yield- t/ha	5.0	5.3	5.2	5.3	5.2

Source: Company data, Morgan Stanley Research (e) estimates

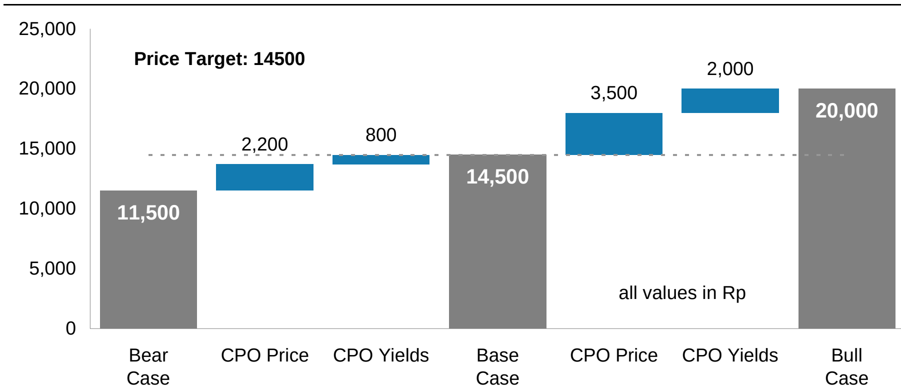
Risk-Reward Snapshot: Astra (AALI.JK, Rp17,300, UW, PT Rp14,500)

Risk-Reward: De-rate on Sustainability, Higher Costs, Lower Earnings



Price Target Rp14,500		Derived from base-case, residual income valuation model
Bull Case Rp20,000	~12x Bull Case 14e EPS	**Bull-case CPO pricing and growth:** CPO pricing of US$1,025/t in 2014 and volume growth 5% above base case on better FFB yield lifts EPS 25% above base-case.
Base Case Rp14,500	~11x Base Case 14e EPS	**Base-case CPO prices and costs:** CPO pricing of US$900/t in 2014 and units costs of US$457/t deliver EPS of Rp1,434, PT of Rp15,000 implies ~11x P/E, below its five-year average on increased sustainability focus and lower earnings outlook.
Bear Case Rp11,500	~1.6x PB	**Bear-case CPO pricing and growth:** CPO pricing of US$700/t in 2014 and no volume growth cut EPS >50% below base-case to Rp668. Stock trades below 2x P/B, similar to pre-2005

Bear to Bull: CPO Price and Yield Are Key Drivers



Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis

- **De-rating underway:** We believe AALI will face de-rating and trade at a lower multiple with increased focus on sustainability and its unfavorable earnings growth trends.
- **Higher costs:** We forecast AALI to face the biggest cost increases to address heightened sustainability efforts.
- **Unfavorable earnings trend:** We forecast AALI's 2013e EPS to fall 19% from 2012 levels on higher costs assumption and modest volume outlook. We expect investors to reduce the multiples paid on the stock given the lower earnings outlook.

Key Value Drivers

- CPO prices and volume: In addition to pricing leverage, volume gains of 5% add a similar amount to earnings.
- Cost of production: We forecast AALI's cost of production to rise with inflation and increased sustainability efforts.

Potential Catalysts

- Lower CPO prices
- Higher CPO costs
- Lower yield
- High capex on potentially low return refinery investment

Key Upside Risks to Our Price Target

- Higher CPO prices and volume.
- Higher yield because of yield improvement programs
- Investor willingness to pay higher multiple for the stock.

Felda Global Ventures – Financial Summary

Profit & Loss Statement					
YE Dec 31 (RM mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Revenue	**7,475**	**12,441**	**12,421**	**13,798**	**14,535**
Plantations	1,780	1,264	1,055	1,319	1,504
Downstream	(234)	50	35	35	35
Sugar	464	374	381	381	381
Gross Profit	**2,010**	**1,699**	**1,472**	**1,736**	**1,921**
Operating Expenses & others	(281)	(514)	(429)	(480)	(508)
LLA payment/FV chg etc.	(530)	(210)	(305)	(450)	(402)
Operating Profit	**1,200**	**975**	**738**	**806**	**1,011**
Equity income-Assoc/JV	275	173	227	264	363
Net financial interest exp/(income)	(103)	(22)	39	41	46
Profit Before Tax	**1,372**	**1,126**	**1,004**	**1,110**	**1,420**
Tax	(357)	(221)	(251)	(278)	(355)
Minority Interests	(72)	(99)	(71)	(71)	(71)
Reported Net Income	942	806	682	762	994
MW Net Income	**1,096**	**737**	**682**	**762**	**994**
Avg diluted # of shares (mn)	1,768	2,708	3,648	3,648	3,648
MW EPS (RM)	**0.62**	**0.27**	**0.19**	**0.21**	**0.27**
Reported EPS (RM)	0.53	0.30	0.19	0.21	0.27
DPS (RM)	0.01	0.06	0.09	0.10	0.22
DPR (%)	3%	20%	50%	50%	80%

Cash Flow Statement					
YE Dec 31 (RM mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Net Profit	942	806	682	762	994
Depreciation & amortization	103	84	122	125	128
Change in working cap	157	(273)	(268)	(119)	(62)
Others	972	(1,470)	78	186	40
Cash flow from Operations	**2,174**	**(853)**	**615**	**954**	**1,100**
Capex	(129)	(170)	(124)	(138)	(145)
Addtions to Intangibles	(0)	(16)	(16)	(17)	(18)
Others	1,247	114	-	-	-
Cash flow from Investments	**1,117**	**(73)**	**(140)**	**(155)**	**(164)**
Equity changes	-	4,352	-	-	-
Debt raised / (repaid)	(1,329)	(308)	(232)	(535)	(483)
Dividend paid	(25)	(201)	(341)	(381)	(795)
Others	(3,806)	993	184	197	226
Cash flow from Financing	**(5,160)**	**4,836**	**(389)**	**(719)**	**(1,052)**
Net change in cash	(1,868)	3,910	86	80	(116)
Ending cash and equivalents	1,778	5,688	5,774	5,854	5,738
Free cash flow	**3,291**	**(925)**	**475**	**799**	**936**
Net debt / (cash)	**878**	**2,216**	**2,203**	**2,039**	**2,074**

Balance Sheet					
YE Dec 31 (RM mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Cash and equivalents	1,778	5,688	5,774	5,854	5,738
Accounts receivables	404	600	671	745	785
Inventory	464	598	930	1,024	1,071
Others	51	956	956	956	956
Current Assets	**2,697**	**7,842**	**8,331**	**8,579**	**8,550**
Biological assets	1,859	1,864	1,864	1,864	1,864
Net fixed assets	1,697	1,706	1,719	1,744	1,774
Others	3,506	5,078	5,197	5,340	5,554
Non Curr. assets	**7,061**	**8,649**	**8,780**	**8,948**	**9,192**
Total assets	**9,758**	**16,490**	**17,111**	**17,527**	**17,742**
ST debt	762	1,096	1,259	1,259	1,259
Accounts payables	245	355	491	541	566
Others	256	1,128	1,128	1,128	1,128
Current Liabilities	**1,263**	**2,579**	**2,878**	**2,928**	**2,952**
LT debt	41	5,168	5,168	5,168	5,168
Others	2,016	1,783	1,693	1,608	1,527
Long term liabilities	**2,056**	**6,951**	**6,861**	**6,776**	**6,696**
Shareholders' equity	5,615	6,102	6,443	6,824	7,023
Minority Interest	823	858	929	1,000	1,071
Total Liab. & SH Equity	**9,758**	**16,490**	**17,111**	**17,527**	**17,742**

Ratios	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Sales growth	**29%**	**72%**	**-4%**	**11%**	**5%**
Gross margins	27%	13%	12%	13%	13%
Operating margins	**16%**	**8%**	**6%**	**6%**	**7%**
EBITDA margins	24%	8%	8%	8%	9%
Reported net margins	15%	6%	5%	6%	7%
MW net margins	**15%**	**6%**	**5%**	**6%**	**7%**
Dupont Analysis					
Op. ATO	NM	1.4x	0.8x	0.9x	0.9x
Net margin	15%	6%	5%	6%	7%
Leverage	1.6x	2.4x	2.3x	2.3x	2.2x
ROE - YE BV	**NM**	**19%**	**11%**	**11%**	**14%**
Solvency and Liquidity					
Gross debt/equity (%)	14%	103%	100%	94%	92%
Net debt (cash)/equity (%)	**16%**	**36%**	**34%**	**30%**	**30%**
EBITDA coverage (x)	12.6x	7.6x	9.4x	10.2x	12.9x
Current ratio (x)	2.1x	3.0x	2.9x	2.9x	2.9x
Quick ratio (x)	1.8x	2.8x	2.6x	2.6x	2.5x

Key drivers					
FFB vol(kt)	5,197	4,910	4,818	4,898	4,996
ASP-RM/t	613	552	499	572	603
Unit Costs(to EBIT)	270	295	280	302	302
GP Margin-RM/t	342	257	219	269	301
CPO FOB MY- CY (US$/t)	1,087	937	800	900	950

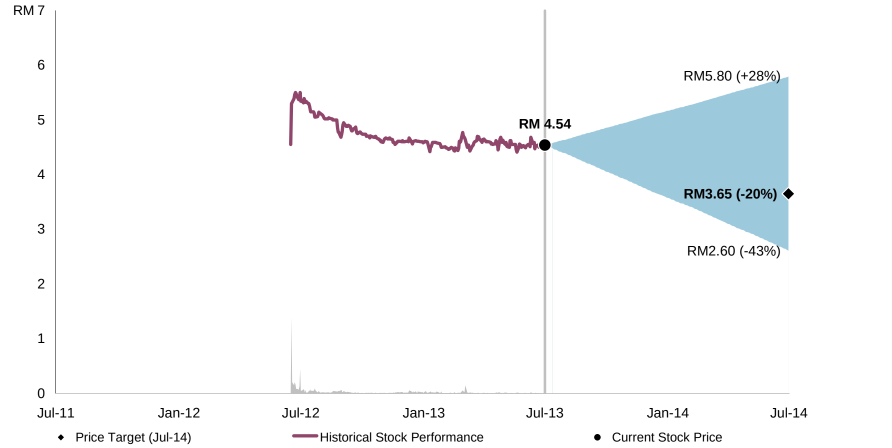
Plantation metrics					
FFB price-RM/t	740	638	545	613	647
ASP discount	-17%	-13%	-8%	-7%	-7%
Oil Palm land bank-k ha	344	344	344	344	344
Total planted area -k ha	317	324	324	324	324
Mature planted - k ha	261	268	268	268	268
Mature planted -%	76%	78%	78%	78%	78%
FFB yield- t/ha	19.9	19.2	18.0	18.3	18.7

Source: Company data, Morgan Stanley Research

e = Morgan Stanley Research Estimates, FVGH plantation hectare for 2009-11 are calculated based on reported FFB production & yield

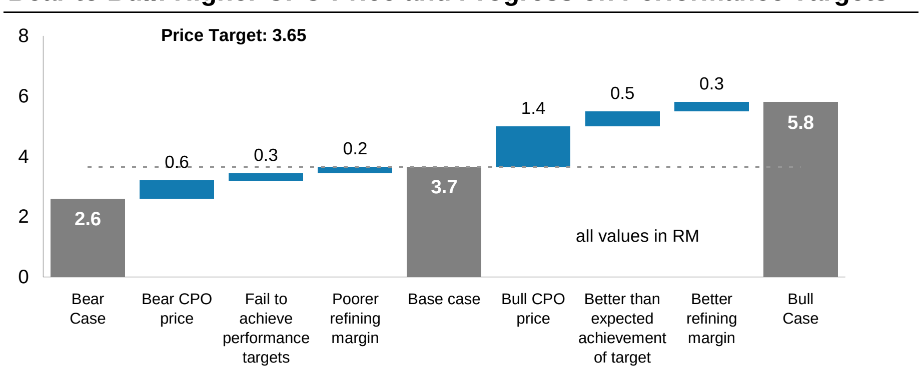
Risk-Reward Snapshot: Felda Global Ventures (FGVH.KL, RM4.54, UW, PT RM3.65)

Risk-Reward View: Expensive and Unattractive Growth Profile



Price Target RM3.65		Derived from base-case residual income valuation.
Bull Case RM5.80	22x Bull Case 14e EPS	**Bull-case CPO and better performance:** Bull-case CPO price (US$1,025/t), higher yield (3% above) and better price realization (8bp above) and higher refining margin (40% above) lift 2014e EPS ~23% over our base-case EPS. FFB yield and price realization are higher than in our base case, as management exceeds its performance targets. Refining business delivers better margin with more aggressive government policies.
Base Case RM3.65	17x Base Case 14e EPS	**Base-case CPO prices and achievement of management targets:** Base-case CPO pricing (US$900/t). Management achieves performance targets in line with our expectation.
Bear Case RM2.60	16x Bear Case 14e EPS	**Bear-case CPO prices and performance falls short of expectation:** Bear-case CPO pricing (US$700/t), lower yield (3% below) and poor price realization (4 % below) and lower refining margin (40% below) cut 24% from our base-case EPS. Yield and price realization are lower than in base case, as the company fails to deliver fully on performance targets. Refining margin deteriorates further with new tax policy from consuming countries

Bear to Bull: Higher CPO Price and Progress on Performance Targets



Source: Thomson Reuters, Morgan Stanley Research

Why Underweight?

- **Tracking behind on performance targets since IPO:** Felda's operational improvement has been slower than we expected.
- **The lackluster performance in non-plantation segments** remains a drag on the company's earnings outlook.
- **Our 2013-14 EPS forecasts are ~3-7% below consensus**.
- **Expensive valuation** at >20x our 2014E EPS.

Key Value Drivers

- CPO pricing.
- Management targets:
  1) FFB yield;
  2) Realized pricing/discount to industry FFB prices;
- Performance of refining operation (refining margin), reflected most through equity income from associates.

Potential Catalysts

- Slower-than-expected recovery in CPO prices.
- Poor performance in other business.

Upside Risks

- Higher CPO pricing/FFB yield.
- Better-than-expected achievement of management targets in the non-plantation business.
- Earnings boost from potential M&A activities not yet announced by the company.
- Malaysian government's sugar support policy aiding Felda's MSM subsidiary.

First Resources – Financial Summary

Profit & Loss Statement

YE Dec 31 (USD mn)	2011	2012	2013e	2014e	2015e
Revenue	**495**	**603**	**613**	**875**	**1,027**
Gross Profit	346	382	301	509	601
Operating Expenses-Rpt	(35)	(49)	16	(160)	(192)
Reported Plantation	*289*	*309*	*293*	*321*	*384*
Biological gain	*(39)*	*(36)*	*0*	*0*	*0*
Refining	*21*	*25*	*24*	*28*	*26*
Operating Profit-Rpt	**310**	**334**	**317**	**349**	**409**
Plantation EBITDA	268	293	318	352	421
Refining EBITDA	27	30	29	33	31
EBITDA-clean	**295**	**323**	**347**	**385**	**452**
Non-Operating Inc/(Exps)	(29)	(7)	(18)	(17)	(17)
Profit Before Tax	**282**	**326**	**300**	**332**	**392**
Tax	(76)	(78)	(75)	(83)	(98)
Minority Interests	(9)	(11)	(9)	(9)	(11)
Reported Net Income	196	237	216	239	283
MW Net Income	**168**	**211**	**216**	**239**	**283**
# of shares (mn)	1,470	1,584	1,584	1,584	1,584
Reported EPS (USD)	0.13	0.15	0.14	0.15	0.18
MW EPS (USD)	**0.11**	**0.14**	**0.14**	**0.15**	**0.18**
MW EPS (SGD)	**0.14**	**0.17**	**0.16**	**0.17**	**0.21**
DPS (USD)	0.03	0.03	0.03	0.03	0.04
DPR (%)	19%	20%	20%	20%	20%

Cash Flow Statement

YE Dec 31 (USD mn)	2011	2012	2013e	2014e	2015e
Net Profit	196	237	216	239	283
Depreciation	21	24	27	34	41
Change in working cap	(31)	(6)	(0)	(15)	(8)
Others	(10)	(58)	10	11	13
Cash flow from Operations	**176**	**196**	**254**	**270**	**328**
Net Capex	(84)	(86)	(108)	(108)	(108)
Net Additions of Plantation	(73)	(89)	(92)	(102)	(110)
Others	(41)	(55)	-	-	-
Cash flow from Investments	**(198)**	**(230)**	**(200)**	**(210)**	**(218)**
Equity raised / (repaid)	2	105	-	-	-
Debt raised / (repaid)	40	(129)	-	-	-
Dividend paid	(37)	(48)	(43)	(48)	(57)
Others	7	303	-	-	-
Cash flow from Financing	**12**	**231**	**(43)**	**(48)**	**(57)**
Net change in cash	(10)	197	11	12	53
Ending cash and equivalents	210	405	416	428	481
Free cash flow	**(22)**	**(34)**	**54**	**60**	**110**
Net debt / (cash)	**148**	**(177)**	**(188)**	**(200)**	**(254)**

Balance Sheet

YE Dec 31 (USD mn)	2011	2012	2013e	2014e	2015e
Cash and equivalents	210	405	416	428	481
Account receivables	34	35	36	51	60
Inventory	39	58	82	96	112
Others	34	63	63	63	63
Current Assets	**317**	**561**	**596**	**637**	**715**
LT investments	756	844	936	1,038	1,148
Net fixed assets	275	321	402	475	543
Others	152	205	203	201	200
Long term assets	**1,183**	**1,370**	**1,540**	**1,714**	**1,890**
ST debt	89	40	40	40	40
Trade/other payables & accru	46	59	84	98	114
Others	42	31	31	31	31
Current Liabilities	**176**	**131**	**155**	**169**	**186**
LT debt	261	174	174	174	174
Others	134	469	469	469	469
Long term liabilities	**395**	**643**	**643**	**643**	**643**
Shareholders' equity	885	1,106	1,279	1,471	1,697
Minority Interest	44	51	60	69	80

Ratios

	2011	2012	2013e	2014e	2015e
Sales growth	**49.9%**	**22.0%**	**1.7%**	**42.7%**	**17.4%**
Gross margins	69.9%	63.3%	49.0%	58.2%	58.5%
Operating margins	**62.8%**	**55.3%**	**51.7%**	**39.9%**	**39.8%**
EBITDA margins	59.6%	53.5%	56.5%	44.0%	44.0%
Reported net margins	39.7%	39.3%	35.3%	27.4%	27.5%
MW net margins	**34.0%**	**35.0%**	**35.3%**	**27.4%**	**27.5%**
Dupont Analysis					
Op. ATO	0.4x	0.4x	0.3x	0.4x	0.5x
Net margin	40%	39%	35%	27%	28%
Leverage	1.6x	1.6x	1.7x	1.6x	1.5x
ROE - YE BV	**28%**	**27%**	**20%**	**19%**	**19%**
Solvency and Liquidity					
Gross debt/equity (%)	39.5%	19.4%	16.8%	14.6%	12.6%
Net debt (cash)/equity (%)	**16.7%**	**-16.0%**	**-14.7%**	**-13.6%**	**-15.0%**
EBITDA coverage (x)	10.6x	16.8x	17.4x	19.4x	22.9x
Current ratio (x)	1.8x	4.3x	3.8x	3.8x	3.9x
Quick ratio (x)	1.4x	3.4x	2.9x	2.8x	2.9x

Key drivers

	2011	2012	2013e	2014e	2015e
FFB nucleus produced (kt)	1,725	1,925	2,127	2,301	2,595
FFB plasma & 3rd party (kt)	173	244	228	348	396
CPO production (kt)	452	526	571	642	725
Blended Vol-Total (kt)	471	578	627	706	797
Blended Vol-Own (kt)	458	521	576	623	703
ASP (US$/t)	937	873	771	845	892
Unit Costs(to EBIT)	392	349	262	329	346
EBIT Mgn (US$/t)	545	524	510	515	546
Mgt CPO ASP-US$/t	919	882			
Mgt cash cost of prod-US$/t	221	238			
CPO FOB Mal US$/t	1,087	937	800	900	950
Unit Costs(to EBITDA)	352	311	220	279	293
EBITDA Mgn (US$/t)	585	562	551	565	599

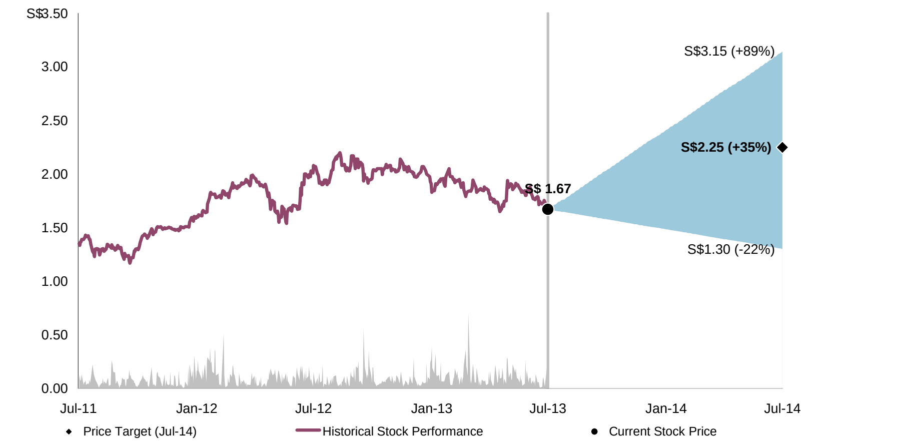
Plantation metrics

	2011	2012	2013e	2014e	2015e
Land bank-k ha	262	276	290	300	310
Total planted area (nucleus) -k ha	113	126	138	153	168
Mature planted - k ha	75	86	94	99	112
Mature planted -%	66%	68%	68%	65%	67%
Age	8.0	8.0	8.4	8.9	9.3
EBIT per mat.ha-US$/ha	2,999	2,845	2,804	2,899	3,071
Productivity					
FFB yield- t/ha	23.1	22.4	22.7	23.2	23.2
OER- %	23.8%	24.2%	24.2%	24.2%	24.2%
Oil yield- t/ha	5.5	5.4	5.5	5.6	5.6

Sources: Company Data. Morgan Stanley Research
e = Morgan Stanley Research Estimates

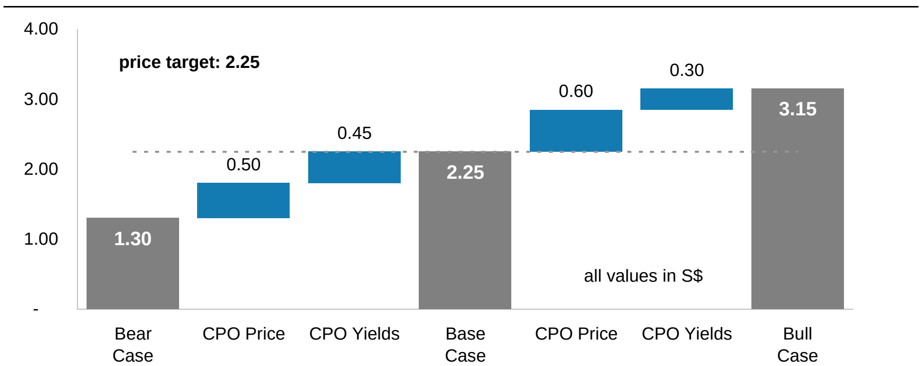
Risk-Reward Snapshot: First Resources (FRLD.SI, S$1.67, OW, PT S$2.25)

Attractive Growth, Valuation despite High Sustainability Cost



Price Target S$2.25		Derived from base-case RI valuation.
Bull Case S$3.15	~15x Bull Case 14e EPS	**Bull-case CPO pricing and aggressive planting:** Our bull-case CPO price ($1,025/t in 2014) and higher volume (5% above base case) forecasts lift EPS ~20% above our base case. Management's aggressive planting exceeds 15,000ha/yr, boosting investor confidence in the company's growth potential.
Base Case S$2.25	~13x Base Case 14e EPS	**Base-case CPO prices and yield on target**: With 2014e CPO prices at US$900/t and volume growth ~10% p.a, base-case EPS for F2014 reaches US$0.16. As management achieves its targets, the stock continues to trade toward a higher multiple.
Bear Case S$1.30	~11x Bear Case 14e EPS	**Bear-case CPO prices, disappointing yields:** CPO pricing of US$700/t in 2014, FR's volumes disappoint on lower Indo yields (10% below base case), cut 30% from our base-case EPS. Poor harvest conditions reduce the achieved yield. The stock de-rates, reverting to its historical average P/E.

Volume Growth and CPO Price Drive Bull Case



Source: Thomson Research, Morgan Stanley Research

Investment Thesis

- **Strong earnings trend:** FR has the strongest earnings trends in the industry and attractive EV/EBITDA valuations.
- **Young estates with growth:** The age profile of its plantation estate is the youngest in our coverage, at just ~nine years. We expect this to drive volume growth of ~10% over 2013-15 with minimal capex, while additional planting should sustain long-term growth beyond 2015.
- **Low-cost producer:** Production costs are in the first quartile across the industry despite the young age profile.

Key Value Drivers

- **CPO prices/volume:** FR offers modest earnings leverage to CPO pricing of almost 2x; every 5% price increase adds 9% to our 2014e EPS.
- **Planting program:** With a planting target of 12-15k ha/year, FR should near the ranks of the industry's top-five planters in five years, with estate sizes exceeding 200k ha.

Potential Catalysts

- Strong monthly production data to strengthen investor confidence in future earnings outlook.
- Opportunistic and earnings-accretive M&A.

Downside Risks

- Lower CPO prices and volume.
- Sensitivity to changes in consensus earnings expectations.
- Uncertainties concerning land rights, which could pose a risk to realization of future earnings.

Golden Agri-Resources – Financial Summary

Profit and Loss Statement

YE Dec 31 (US$ mn)	2011	2012	2013e	2014e	2015e
Indo	4,813	4,762	4,826	5,630	6,225
*Plantation**	*2,738*	*2,663*	*2,761*	*3,141*	*3,422*
*Refined products**	*2,262*	*2,239*	*2,065*	*2,489*	*2,803*
China	1,140	1,290	1,174	1,347	1,506
Revenue	**5,953**	**6,052**	**6,000**	**6,976**	**7,731**
MW EBITDA	**891**	**743**	**759**	**901**	**1,016**
Mgt EBITDA	942	785	788	930	1,044
Indo	829	711	614	751	843
Plantation	*751*	*635*	*516*	*667*	*754*
Refined products	*79*	*76*	*98*	*84*	*90*
China	15	(42)	10	-	10
Operating profit	**797**	**628**	**624**	**751**	**853**
Bio gain	903	49	-	-	-
Other. Inc / (Exps)	12	(66)	(20)	(33)	(23)
Profit before tax	**1,712**	**612**	**604**	**718**	**830**
Tax	(428)	(196)	(151)	(179)	(208)
MI	(16)	(6)	(11)	(13)	(16)
Reported net income	**1,268**	**410**	**442**	**525**	**607**
Adj items - net of tax	(682)	(13)	-	-	-
MW net income	**586**	**397**	**442**	**525**	**607**
Shares outstanding (mn)	12,139	12,430	12,838	12,838	12,838
Reported EPS (US$)	0.104	0.033	0.034	0.041	0.047
MW EPS (US$)	**0.048**	**0.031**	**0.033**	**0.039**	**0.045**
MW EPS (S$)	**0.062**	**0.040**	**0.040**	**0.048**	**0.055**
DPS (S$)	0.018	0.012	0.012	0.014	0.017
DPR (%)	29.8%	29.9%	29.9%	29.9%	29.9%

Balance Sheet

YE Dec 31 (US$ in mn)	2011	2012	2013e	2014e	2015e
Cash and cash equivalents	370	685	614	790	859
Account Receivables	234	400	397	461	511
Inventories	751	840	830	963	1,066
Desposits/prepaids/others rec	527	496	496	496	496
Current Assets	**1,882**	**2,422**	**2,336**	**2,711**	**2,933**
Net fixed assets	1,759	2,007	2,372	2,623	2,860
Biological assets	7,804	7,899	7,941	7,975	8,010
Goodwill & others rec.	392	958	957	955	954
Total assets	**11,837**	**13,286**	**13,606**	**14,264**	**14,757**
ST loans	422	433	433	433	433
Account Payables	491	685	677	785	869
Other payables	231	184	184	184	184
Current liabilities	**1,143**	**1,302**	**1,294**	**1,403**	**1,487**
Long term debt	664	1,421	1,421	1,621	1,621
Deferred tax/Other payables	1,917	1,945	1,945	1,945	1,945
Total liabilities	**3,725**	**4,668**	**4,659**	**4,968**	**5,052**
Shareholder's equity	8,025	8,527	8,844	9,179	9,573
Minority Interest	87	92	103	116	132

Key drivers

FFB nucleus (kt)	6,398	7,390	8,182	8,300	8,511
FFB plasma & 3rd party (kt)	851	743	1,140	1,311	1,442
CPO production (kt)	2,153	2,357	2,643	2,733	2,821
Blended Vol-Total (kt)	2,396	2,634	2,953	3,054	3,153
Blended Vol-Own (kt)	1,638	1,866	2,067	2,096	2,150
ASP (US$/t)	1,168	1,034	935	1,028	1,085
Unit Costs(to EBIT)	709	694	685	710	735
EBIT Mgn (US$/t)	458	340	250	318	351
Mgt ASP-US$/t	1,085	975			
Mgt unit costs-US$/t	295	298			
CPO FOB MY -US$/t	1,083	959	800	900	950

Sources: Company Data. Morgan Stanley Research
e = Morgan Stanley Research Estimates

Cash Flow Statement

YE Dec 31 (US$ mn)	2011	2012	2013e	2014e	2015e
Profit before tax	1,712	612	604	718	830
Depreciation & Amortization	95	116	137	151	164
Change in working capital	3	(61)	5	(89)	(69)
Bio gain	(903)	(49)	-	-	-
Others	(256)	(209)	(151)	(179)	(208)
Cash flow from operations	**651**	**409**	**595**	**600**	**718**
Capex/M&A	(387)	(371)	(500)	(400)	(400)
Biological assets	(59)	(40)	(42)	(34)	(35)
Long term investment	(55)	(447)	0	0	0
Short term investment	(30)	(49)	0	0	0
Acqusition of sub (M&A)	(5)	0	0	0	0
Others	(25)	(69)	0	0	0
Cash flow from investments	**(561)**	**(976)**	**(542)**	**(434)**	**(435)**
Equity raised/ (repaid)	-	299	-	-	-
Change in long term borrowing	201	(119)	0	200	0
Change in short term borrowing	(96)	(74)	0	0	0
Proceed from bonds	0	990	0	0	0
Dividends paid	(79)	(244)	(125)	(190)	(213)
Others	(44)	26	0	0	0
Cash from financing	**(19)**	**879**	**(125)**	**10**	**(213)**
Net change in cash	70	311	(72)	176	69
Ending cash	370	685	614	790	859
Free cash flow	**89**	**(567)**	**53**	**166**	**283**
Net debt / (cash)	**716**	**1,169**	**1,241**	**1,264**	**1,195**

Ratio Analysis

YE Dec 31	2011	2012	2013e	2014e	2015e
Sales growth (%)	**69.9**	**1.7**	**(0.9)**	**16.3**	**10.8**
Operating margins (%)	**13.4**	**10.4**	**10.4**	**10.8**	**11.0**
EBITDA margins (%)	15.0	12.3	12.7	12.9	13.1
Reported net margins (%)	21.3	6.8	7.4	7.5	7.9
MW net margins (%)	**9.8**	**6.6**	**7.4**	**7.5**	**7.9**
Dupont Analysis					
Op.ATO (x)	0.6x	0.5x	0.5x	0.5x	0.6x
Net margin (%)	9.8%	6.6%	7.4%	7.5%	7.9%
Leverage (x)	1.4x	1.4x	1.5x	1.4x	1.4x
ROE- YE BV (%)	8.6%	4.9%	5.2%	5.9%	6.6%
Solvency and Liquidity					
Gross debt/equity (%)	13.4	21.5	20.7	22.1	21.2
Net debt (cash)/equity (%)	**8.8**	**13.6**	**13.9**	**13.6**	**12.3**
EBITDA coverage (x)	16.7	11.1	14.6	14.2	18.1
Current ratio (x)	1.6	1.9	1.8	1.9	2.0
Quick ratio (x)	1.2	1.5	1.4	1.6	1.6

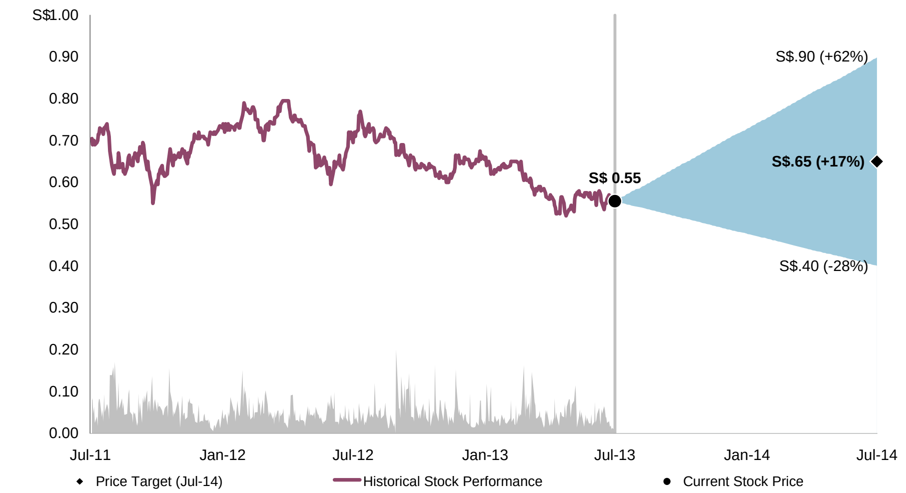
Plantation metrics

Land bank-k ha	456	463	479	479	479
Total planted area (nucleus) -k ha	361	367	393	403	413
Mature planted (nucleus)- k ha	307	328	360	372	380
Mature planted -%	85%	90%	92%	92%	92%
Age	12.0	13.0	13.0	13.6	14.3
EBIT per mat.ha-US$/ha	2,198	1,730	1,282	1,605	1,775
Productivity					
FFB yield- t/ha	20.9	22.5	22.7	22.3	22.4
OER- %	23.0	22.6	22.6	22.6	22.6
Oil yield-t/ha	4.8	5.1	5.1	5.0	5.1

*Plantation revenue do not tally with geographical revenue due to inter-segment sales

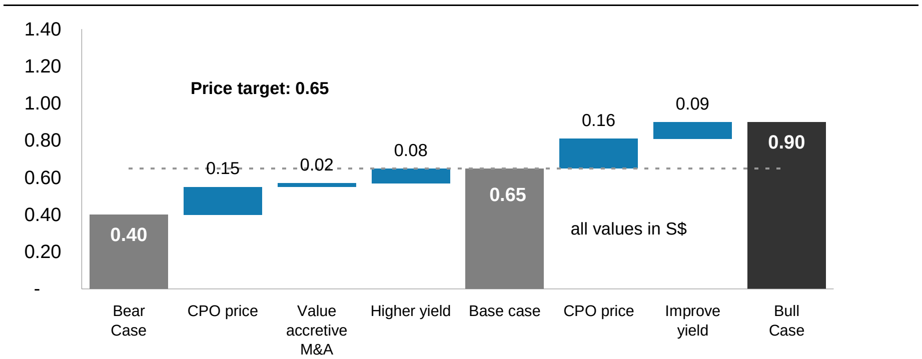
Risk-Reward Snapshot: Golden Agri (GAGR.SI, S$0.55, OW, PT S$0.65)

Risk-Reward View: Leverage on Positive CPO Price Outlook



Price Target S$0.65		Base-case RI valuation.
Bull Case S$0.90	~15x Bull 14e EPS	**Bull-case CPO pricing and better yield:** Our bull-case CPO price forecast and higher volume lifts EPS ~25% above our base case. Management aims to achieve better yield with volume 10% above base case.
Base Case S$0.65	~14x Base 14e EPS	**Base-case CPO prices and execution according to plan:** Management closes the announced Indo oil palm acquisition in 2H13 to boost 2014 volume and earnings. As management achieves its volume targets, the stock continues to trade toward a higher multiple.
Bear Case S$0.40	~12x Bear 14e EPS	**Bear-case CPO prices, no or delayed M&A contribution:** Management unable to deliver on M&A strategy or faces delays closing the transaction in 2014, resulting in volumes below base case. The stock is de-rated as investors are disappointed in execution. In addition, lower CPO prices cut 20% from our base-case EPS.

CPO Prices and Higher Yield Drive Bull Case



Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis

- Largest CPO producer in Indonesia and second in the world. The stock is highly liquid with a daily average trading value of ~ S$40mn.
- Earnings are ~3x leveraged to CPO prices and shares are 89% correlated to CPO price movement. With our call on CPO price recovery, we see now as the time to aggressively OW GGR.
- Well positioned to undertake a value-accretive M&A with nearly US$500mn of cash on hand (end Mar 2013).

Key Value Drivers

- **CPO prices and volume:** A 5% higher CPO price than forecast would boost our 2014 EPS forecast by 17%.
- **Inorganic growth:** Management has almost S$1bn of cash available to invest in M&A to boost its volume and earnings.
- **Replanting efforts:** Aggressive replanting to achieve its annual target of 15-20k ha. The company has sufficient land bank in Kalimantan and Liberia of 100k ha and 200k ha, respectively, for future growth.

Potential Catalysts

- Progress on acquisition.
- Increased replanting efforts and results.
- CPO prices and volume.

Downside risk

- Lower CPO prices and volume.
- Inability to make or complete value-accretive acquisition.
- Overpaying for M&A.

Genting Plantations – Financial Summary

Profit & Loss Statement

YE Dec 31 (RM mn)	2011	2012	2013e	2014e	2015e
Revenue	**1,336**	**1,233**	**1,279**	**1,404**	**1,653**
Gross Profit	732	552	580	642	807
Operating Expenses	(163)	(185)	(195)	(190)	(210)
Operating Profit	**568**	**366**	**385**	**452**	**598**
Plantation EBIT	*579*	*384*	*381*	*437*	*542*
Property EBIT	*23*	*40*	*60*	*70*	*81*
Others	*(34)*	*(57)*	*(56)*	*(55)*	*(25)*
EBITDA	**612**	**423**	**451**	**523**	**675**
Plantation EBITDA	*607*	*421*	*418*	*479*	*595*
Non-Operating Inc/(Exps)	33	38	6	40	41
Profit Before Tax	**601**	**404**	**391**	**492**	**639**
Tax	(159)	(82)	(86)	(113)	(153)
Minority Interests	(1)	5	0	0	0
Reported Net Income	442	327	305	379	486
MW Net Income	**440**	**329**	**331**	**379**	**486**
# of shares (mn)	759	759	759	759	759
MW EPS (RM)	**0.58**	**0.43**	**0.44**	**0.50**	**0.64**
Reported EPS (RM)	0.58	0.43	0.40	0.50	0.64
DPS (RM)	0.16	0.13	0.22	0.14	0.18
DPR (%)	28%	29%	55%	28%	28%

Cash Flow Statement

YE Dec 31 (RM mn)	2011	2012	2013e	2014e	2015e
Net Profit	442	327	305	379	486
Depreciation & Amortization	44	56	66	72	77
Change in working cap	54	19	3	(3)	(13)
Others	(5)	(210)	-	-	-
Cash flow from Operations	**535**	**192**	**374**	**447**	**550**
Capex	(121)	(193)	(244)	(258)	(258)
Additions to Biological Assets	(123)	(123)	(28)	(31)	(30)
Others	(108)	(46)	(16)	(16)	(16)
Cash flow from Investments	**(352)**	**(363)**	**(288)**	**(306)**	**(304)**
Equity raised / (bought back)	-	-	-	-	-
Debt raised / (repaid)	163	216	-	-	-
Dividend paid	(73)	(92)	(99)	(110)	(93)
Others	(12)	(17)	-	-	-
Cash flow from Financing	**78**	**106**	**(99)**	**(110)**	**(93)**
Net change in cash	261	(64)	(12)	32	153
Ending cash and equivalents	1,017	951	939	971	1,124
Free cash flow	**183**	**(171)**	**86**	**142**	**246**
Net debt / (cash)	**(590)**	**(248)**	**(236)**	**(267)**	**(421)**

Balance Sheet

YE Dec 31 (RM mn)	2011	2012	2013e	2014e	2015e
Cash and equivalents	1,017	951	939	971	1,124
Account receivables	127	165	123	135	159
Inventory	129	127	143	156	173
Others	135	224	224	224	224
Current Assets	**1,407**	**1,468**	**1,429**	**1,485**	**1,680**
Biological assets	1,008	1,426	1,454	1,485	1,515
Net fixed assets	882	1,011	1,192	1,383	1,568
Others	810	819	832	844	856
Long term assets	**2,699**	**3,256**	**3,478**	**3,712**	**3,939**
ST debt	0	1	1	1	1
Account payables	205	261	238	259	287
Others	26	3	3	3	3
Current Liabilities	**231**	**264**	**241**	**262**	**291**
LT debt	427	703	703	703	703
Others	96	104	104	104	104
Long term liabilities	**523**	**807**	**807**	**807**	**807**
Shareholders' equity	3,234	3,424	3,630	3,899	4,292
Minority Interest	118	229	229	229	229

Ratios

	2011	2012	2013e	2014e	2015e
Sales growth	**35.2%**	**-7.7%**	**3.7%**	**9.7%**	**17.8%**
Gross margins	54.7%	44.7%	45.3%	45.7%	48.8%
Operating margins	**42.5%**	**29.7%**	**30.1%**	**32.2%**	**36.2%**
EBITDA margins	45.8%	34.3%	35.3%	37.3%	40.8%
Reported net margins	33.1%	26.5%	23.8%	27.0%	29.4%
MW net margins	**32.9%**	**26.7%**	**25.9%**	**27.0%**	**29.4%**
Dupont Analysis					
Op. ATO	0.4x	0.3x	0.3x	0.3x	0.3x
Net margin	33.1%	26.5%	23.8%	27.0%	29.4%
Leverage	1.2x	1.2x	1.3x	1.3x	1.3x
ROE - YE BV	**15.3%**	**10.2%**	**9.7%**	**10.4%**	**12.5%**
Solvency and Liquidity					
Gross debt/equity (%)	13%	21%	19%	18%	16%
Net debt (cash)/equity (%)	**-18%**	**-7%**	**-6%**	**-7%**	**-10%**
EBITDA coverage (x)	-0.3x	-0.1x	-0.2x	-0.2x	-0.2x
Current ratio (x)	6.1x	5.6x	5.9x	5.7x	5.8x
Quick ratio (x)	5.0x	4.2x	4.4x	4.2x	4.4x

Key drivers

	2011	2012	2013e	2014e	2015e
FFB nucleus-kt	1,372	1,392	1,689	1,670	1,917
FFB plasma & 3rd party (kt)	-	-	-	-	-
CPO production (kt)	280	294	355	351	403
CPO Blended Vol-Total (kt)	314	338	393	388	446
CPO Blended Vol-Own (kt)	314	338	393	388	446
ASP (US$/t)	1,218	1,040	930	1,014	1,050
Unit Costs(to EBIT)	630	671	611	651	657
EBIT Mgn (US$/t)	588	369	319	363	392
Mgt CPO ASP-RM/t	3,240	2,784			
CPO FOB MY -US$/t	1,087	937	800	900	950
Unit Costs(to EBITDA)	601	635	580	616	619
EBITDA Mgn (US$/t)	616	405	350	398	430

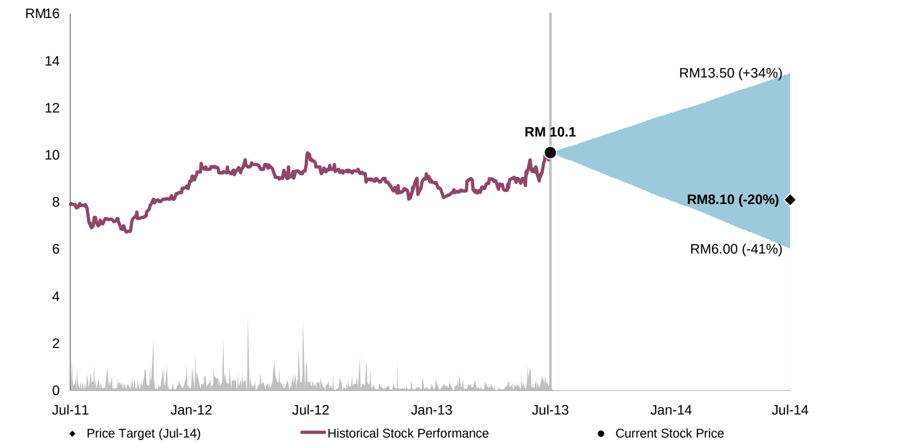
Plantation metrics

	2011	2012	2013e	2014e	2015e
Land bank-k ha	166	228	236	244	249
Total planted area -k ha	93	94	100	105	112
Mature planted - k ha	61	68	78	79	85
Mature planted -%	66%	72%	78%	75%	76%
Age	9.9	9.6	9.6	10.2	10.5
EBIT per mat.ha-US$/ha	2,689	1,600	1,448	1,617	1,854
Productivity					
FFB yield- t/ha	22.4	20.6	21.6	21.2	22.5
OER- %	20.4	21.1	21.0	21.0	21.0
Oil yield- t/ha	4.6	4.3	4.5	4.5	4.7

Sources: Company Data. Morgan Stanley Research
e = Morgan Stanley Research Estimates

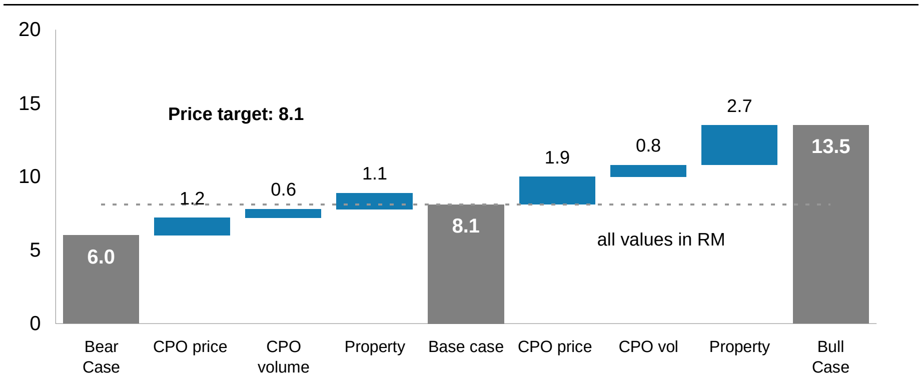
Risk-Reward Snapshot: Genting Plantations (GENP.KL, RM10.1, UW, PT RM8.10)

Higher sustainability Costs, Slow Monetization of Property Assets, Expensive Valuation



Price Target RM8.10		Derived from our RI valuation plus 50% of landbank valuation.
Bull Case RM13.50	~18x Bull Case 14e EPS	**Bull-case CPO pricing and full value for landbank:** Bull-case CPO price ($1,025/t) and higher volume (10% above base case) forecasts lifts 2014e EPS by ~ 50% over our base case. In addition, we give 50% of the value for its undervalued landbanks, adding RM2.7/sh in property value to bull case valuation.
Base Case RM8.10	~16x Base Case 14e EPS	**Base-case CPO prices and 20% of landbank values:** Base case CPO price (US$900/t) and 15% YoY volume forecast. In addition, we give 20% of the value for its undervalued landbanks, adding RM1.1/sh in property value to our earnings-based price target.
Bear Case RM6.00	~15x Bear Case 14e EPS	**Bear-case CPO prices, disappointing yields and no landbank values:** Bear case CPO price (US$700/t) and lower volume (5% below base case) forecasts drive EPS 30% below our base case. Finally, we assume the market fails to give any recognition to its IDR landbank.

Volume Growth and Property Development Drive Bull Case



Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis

- **Higher costs:** We forecast GENP to face higher costs to address heightened sustainability efforts.
- **De-rating under way:** We believe GENP will face a de-rating and trade at a lower multiple with increased focus on sustainability and slow progress in monetizing its property assets.
- **Expensive valuation:** Stock trades at 20x 2014e P/E, one of the highest levels within our coverage.

Key Value Drivers

- **High pricing leverage:** A 5% increase in pricing boosts GENP's 2013e EPS by 12%.
- **High volume growth:** We forecast that volumes will grow by nearly 50% to 2015.

Potential Catalysts

- Lower CPO prices
- Higher costs
- Lower yield
- Slow progress in monetarising its property assets.

Key Upside risks

- Higher CPO prices and volume
- Unexpected acceleration in the property sales
- Earnings accretive M&A

IFAR – Financial Summary

Profit and Loss Statement					
YE Dec 31 (Rp bn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Revenue	**12,605**	**13,845**	**12,628**	**14,747**	**16,019**
Plantation-Reported	3,572	2,600	2,467	2,970	3,514
Cooking oil & fats-Reported	256	515	489	588	696
Others & eliminations	(35)	109	103	125	147
EBITDA	**3,793**	**3,224**	**3,060**	**3,682**	**4,357**
Operating profit	**3,308**	**2,670**	**2,294**	**2,862**	**3,485**
Non Op. Inc / (Exps)	246	(228)	(287)	(291)	(332)
Profit before tax	**3,553**	**2,442**	**2,007**	**2,571**	**3,154**
Tax	(913)	(623)	(472)	(591)	(725)
MI	(1,151)	(769)	(660)	(851)	(1,044)
Reported net income	1,490	1,049	875	1,128	1,384
MW net income	**1,327**	**1,032**	**875**	**1,128**	**1,384**
Shares o/s (mn)	1,445	1,437	1,434	1,434	1,434
Reported EPS (S$)	0.15	0.10	0.08	0.10	0.12
MW EPS (Rp)	**918**	**718**	**610**	**787**	**965**
MW EPS (S$)	**0.13**	**0.10**	**0.08**	**0.10**	**0.12**
DPS (S$)	0.003	0.003	0.007	0.008	0.010
DPR (%)	2.0	3.0	8.6	8.1	8.5

Cash Flow Statement					
YE Dec 31 (Rp bn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Profit before tax	3,553	2,442	2,007	2,571	3,154
Depreciation & Amortization	488	590	765	820	872
Change in working capital	(432)	154	188	(179)	(106)
Others	(841)	(376)	(472)	(591)	(725)
CF from Operations	**2,768**	**2,809**	**2,489**	**2,621**	**3,194**
Capex	(880)	(1,703)	(2,518)	(1,557)	(1,557)
Biological assets	(890)	(1,101)	(1,138)	(1,186)	(1,029)
Others	(202)	(672)	-	-	-
CF from Investments	**(1,972)**	**(3,477)**	**(3,656)**	**(2,743)**	**(2,587)**
Equity raised/ (repaid)	(81)	(43)	-	-	-
Debt raised/ (repaid)	(1,233)	(480)	-	-	-
Dividends paid	-	(32)	(32)	(76)	(92)
Others	3,254	(329)	-	-	-
CF from Financing	**1,939**	**(884)**	**(32)**	**(76)**	**(92)**
Net change in cash	2,735	(1,552)	(1,199)	(197)	515
Ending cash	6,535	5,082	3,883	3,685	4,201
Free cash flow	**796**	**(668)**	**(1,167)**	**(122)**	**607**
Net debt / (cash)	**725**	**1,698**	**2,897**	**3,095**	**2,579**

Balance Sheet					
YE Dec 31 (Rp bn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Cash and cash equivalents	6,535	5,082	3,883	3,685	4,201
Account Receivables	1,141	1,223	1,038	1,212	1,317
Inventories	1,678	1,889	1,750	2,009	2,108
Others	84	123	123	123	123
Current Assets	**9,437**	**8,318**	**6,795**	**7,029**	**7,749**
Net fixed assets	7,245	8,461	10,214	10,951	11,637
Biological assets	11,615	12,586	13,724	14,909	15,938
Others	4,909	5,447	5,447	5,447	5,447
Total assets	**33,207**	**34,811**	**36,179**	**38,336**	**40,771**
ST loans	3,334	2,664	2,664	2,664	2,664
Account Payables	1,380	1,854	1,718	1,971	2,069
Others	78	92	92	92	92
Current liabilities	**4,792**	**4,609**	**4,473**	**4,727**	**4,825**
Long term debt	3,926	4,116	4,116	4,116	4,116
Others	3,048	3,258	3,258	3,258	3,258
Total liabilities	**11,766**	**11,983**	**11,847**	**12,100**	**12,198**
Shareholder's equity	12,819	13,796	14,640	15,692	16,985
Minority Interest	8,622	9,032	9,693	10,544	11,588

Ratio Analysis					
	2011	**2012**	**2013e**	**2014e**	**2015e**
Sales growth (%)	**32.9**	**9.8**	**(8.8)**	**16.8**	**8.6**
Operating margins (%)	**26.2**	**19.3**	**18.2**	**19.4**	**21.8**
EBITDA margins (%)	30.1	23.5	24.2	25.0	27.2
Reported net margins (%)	11.8	7.6	6.9	7.7	8.6
MW net margins (%)	**10.5**	**7.5**	**6.9**	**7.7**	**8.6**
Dupont Analysis					
Op.ATO (x)	0.5	0.4	0.4	0.4	0.4
Net margin (%)	10.5	7.5	6.9	7.7	8.6
Leverage (x)	2.4	2.5	2.4	2.3	2.3
ROE- YE BV (%)	11.1	7.8	6.2	7.4	8.5
Solvency and Liquidity					
Gross debt/equity (%)	33.9	29.7	27.9	25.8	23.7
Net debt (cash)/equity (%)	**3.4**	**7.4**	**11.9**	**11.8**	**9.0**
EBITDA coverage (x)	7.4	5.2	4.4	5.5	6.8
Current ratio (x)	2.0	1.8	1.5	1.5	1.6
Quick ratio (x)	2.4	2.0	1.6	1.7	1.9

Key drivers					
FFB nucleus-kt	2,797	2,973	3,192	3,410	3,555
FFB plasma & 3rd party (kt)	1,000	1,134	1,158	1,182	1,207
CPO production (kt)	838	880	935	1,010	1,048
CPO Blended Vol-Total (kt)	926	930	1,045	1,126	1,168
CPO Blended Vol-Own (kt)	689	712	767	836	872
ASP (US$/t)	1,015	966	839	923	965
Unit Costs(to EBIT)	563	699	624	669	650
EBIT Mgn (US$/t)	452	267	214	254	314
Mgt CPO ASP-US$/t					
Mgt cash cost of prod-US$/t					
CPO FOB MY -US$/t	1,087	937	800	900	950

Plantation metrics					
Land bank-k ha	492	492	492	492	492
Total planted area (nucleus) -	217	231	243	255	264
Mature planted - k ha	158	176	190	198	201
Mature planted -%	73%	76%	78%	78%	76%
Age	12.0	12.0	12.4	12.9	13.5
EBIT per mat.ha-US$/ha	2,197	2,528	2,259	2,531	2,531
Productivity					
FFB yield- t/ha	17.7	16.9	16.8	17.2	17.7
OER- %	22.1	21.4	21.5	22.0	22.0
Oil yield- t/ha	3.9	3.6	3.6	3.8	3.9

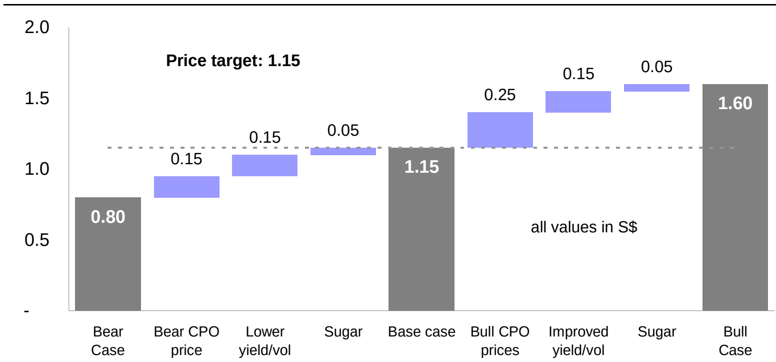
Sources: Company Data. Morgan Stanley Research
e = Morgan Stanley Research Estimates

Risk-Reward Snapshot: Indofood Agri-Res (IFAR.SI, S$0.91, OW, PT S$1.15)

Risk-Reward View: OW on High Leverage to CPO Pricing

Price Target S$1.15		Derived from base-case RI valuation.
Bull Case S$1.60	~14x Bull Case 14e EPS	**Stronger CPO and sugar earnings add 30% to base-case EPS:** Bull-case 2014e CPO at US$1,025/t, plus good yield (5% above base case) lift CPO EBIT 35% above base case. Higher cane volume and refinery utilization drove sugar EBIT 30% above base case. Bull case EPS ~30% above base case with higher earnings from CPO and sugar.
Base Case S$1.15	~11x Base Case 14e EPS	**Recovery pricing and yield:** CPO pricing of US$900/t, and yield recovery from depressed level in 2013e drive EPS up 30% YoY. Sugar earnings reach ~10% of EBIT in 2014e. Recent acquisition in a Brazilian sugar asset improves investor confidence in the company's growth strategy and reduces holding company discount on the stock.
Bear Case S$0.80	Implies ~0.6x P/B	**Bear case CPO prices and poor yield:** Bear-case CPO pricing at US$700/t and depressed yield drive CPO EBIT 35% below base case. Sugar EBIT is 20% lower than base case on lower volume and refinery utilization. Valuation of 0.6x P/B is materially below long-term average

CPO Prices, Yield/Volume and Sugar Business Are Key Drivers



Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis

- **High leverage to CPO pricing:** IFAR earnings have more than 2x leverage to CPO price changes, and the shares are highly correlated with CPO price changes. With palm oil stock levels gradually declining, we could see prices rebound, and this could be beneficial for IFAR's stock price.
- **Sugar growth:** We expect sugar earnings to grow as management ramps up planting and refinery capacity utilization.
- Stock is the one of the cheapest in our coverage at below 1x P/B.

Key Value Drivers

- **International growth:** Management's international expansion with its recent Brazilian sugar acquisition may allow the shares to regain the premium valuations they once had.
- **CPO prices and volumes**: A 5% higher CPO price than forecast could boost our EPS forecasts by 13%. In addition, our forecast pick-up in yields would boost CPO volumes.

Potential Catalysts

- Progress on international growth.
- Progress on sugar business targets.
- CPO price and volumes.

Key Downside Risks

- Inability to close recent acquisition
- Poor return from new sugar business
- Lower CPO prices and volume
- Higher labor costs

IOI Corp – Financial Summary

Profit and Loss Statement

YE June 30 (RM mn)	2011	2012	2013e	2014e	2015e
Revenue	**16,154**	**15,640**	**13,246**	**14,254**	**15,933**
Plantation	*1,498*	*1,548*	*933*	*1,089*	*1,184*
Downstream	*404*	*256*	*418*	*328*	*306*
Property	*626*	*506*	*546*	*552*	*602*
Others	*288*	*56*	*33*	*31*	*25*
Operating profit	**2,816**	**2,367**	**1,930**	**2,000**	**2,117**
Associates/JV	171	154	330	461	553
Non-Operating Inc / (Exps)	(123)	(141)	(116)	(122)	(133)
Profit before tax	**2,864**	**2,379**	**2,144**	**2,339**	**2,537**
Tax	(573)	(550)	(449)	(465)	(491)
MI	(68)	(39)	(36)	(40)	(44)
Reported Net Income	2,223	1,789	1,659	1,834	2,002
MW Net Income	**2,043**	**1,769**	**1,659**	**1,834**	**2,002**
Shares outstanding (mn)	6,396	6,416	6,416	6,416	6,416
Reported EPS (RM)	0.35	0.28	0.26	0.29	0.31
MW EPS (RM)	**0.31**	**0.27**	**0.25**	**0.28**	**0.31**
DPS (RM)	0.17	0.16	0.10	0.13	0.14
DP Ratio (%)	49%	57%	40%	45%	45%

Cash Flow Statement

YE June 30 (RM mn)	2011	2012	2013e	2014e	2015e
Profit Before Tax	2,864	2,379	2,144	2,339	2,537
Depreciation & amortization	243	252	308	314	322
Change in working capital	(1,149)	(33)	528	(204)	(339)
Others	(1,048)	(467)	(797)	(946)	(1,066)
Cash flow from operations	**910**	**2,132**	**2,182**	**1,504**	**1,453**
Capex	(396)	(397)	(439)	(440)	(461)
Property/JV Inv others	(887)	(1,350)	(1,098)	(1,073)	(1,073)
Cash flow from investment	**(1,283)**	**(1,747)**	**(1,537)**	**(1,513)**	**(1,534)**
Equity raised/ (repaid)	39	34	-	-	-
Debt raised/ (repaid)	640	2,649	(39)	-	-
Dividends paid	(1,151)	(1,023)	(956)	(663)	(861)
Others	(268)	(465)	0	0	0
Cash flow from financing	**(740)**	**1,195**	**(994)**	**(663)**	**(861)**
Net change in cash	(1,113)	1,579	(349)	(672)	(941)
Ending cash and equivalents	2,786	4,361	4,012	3,339	2,398
Free cash flow	**(373)**	**385**	**645**	**(9)**	**(80)**
Net debt / (cash)	**2,612**	**3,761**	**4,071**	**4,744**	**5,685**

Balance Sheet

YE June 30 (RM mn)	2011	2012	2013e	2014e	2015e
Cash and cash equivalents	2,786	4,361	4,012	3,339	2,398
Accounts receivable	1,722	1,687	1,428	1,537	1,718
Inventories	2,652	2,511	2,029	2,199	2,482
Development Ppty & others	544	627	627	627	627
Current assets	**7,703**	**9,186**	**8,096**	**7,702**	**7,226**
LT investments	1,731	2,144	2,454	2,806	3,191
Land for development	835	1,859	1,939	2,019	2,099
Joint ventures & others	3,709	4,163	5,201	6,303	7,463
Net fixed assets	5,677	5,714	5,845	5,970	6,110
Total assets	**19,655**	**23,065**	**23,535**	**24,801**	**26,089**
ST loans	791	830	791	791	791
Payables	1,190	1,108	895	970	1,095
Others	307	265	265	265	265
Total current liabilities	**2,288**	**2,202**	**1,951**	**2,026**	**2,151**
Long term debt	4,606	7,292	7,292	7,292	7,292
Other liabilities	499	655	655	655	655
Total liabilities	**7,394**	**10,149**	**9,898**	**9,973**	**10,097**
Shareholders' equity	**11,999**	**12,628**	**13,331**	**14,502**	**15,643**
Minority Interest	262	288	306	326	348
Key drivers					
FFB nucleus (kt)	3,295	3,186	3,418	3,439	3,494
FFB plasma & 3rd party (kt)	(6)	(6)	(6)	(6)	(6)
CPO production (kt)	687	668	712	717	728
Blended Vol-Total (kt)	770	750	798	803	816
Blended Vol-Own (kt)	771	757	800	805	818
ASP (US$/t)	980	989	761	876	924
Unit Costs(to EBIT)	362	359	384	425	442
EBIT Mgn (US$/t)	618	630	377	451	483
Mgt CPO ASP-RM/t	2,945	3,135			
Mgt unit costs-RM/t					
CPO FOB MY- CY (US$/t)	1,087	937	800	900	950
CPO FOB MY- FY (US$/t)	1,055	1,024	796	900	950

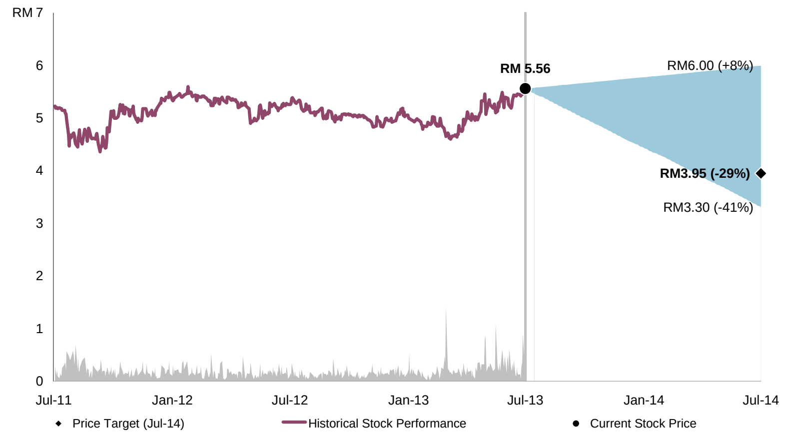
Ratio Analysis

	2011	2012	2013e	2014e	2015e
Sales growth (%)	**28.8%**	**6.1%**	**-22.7%**	**7.6%**	**11.8%**
Operating margins (%)	**17.4%**	**15.1%**	**14.6%**	**14.0%**	**13.3%**
EBITDA margins (%)	18.9%	16.7%	16.9%	16.2%	15.3%
Reported net margins (%)	13.8%	11.4%	12.5%	12.9%	12.6%
MW net margins (%)	**12.6%**	**11.3%**	**12.5%**	**12.9%**	**12.6%**
Dupont Analysis					
Op.ATO (x)	1.0x	0.9x	0.6x	0.6x	0.7x
Net margin (%)	12.6%	11.3%	12.5%	12.9%	12.6%
Leverage (x)	1.5x	1.5x	1.7x	1.7x	1.6x
ROE- YE BV (%)	18.9%	14.7%	13.1%	13.8%	13.8%
Solvency and Liquidity					
Gross debt/equity (%)	0.4x	0.6x	0.6x	0.6x	0.5x
Net debt (cash)/equity (%)	**0.2x**	**0.3x**	**0.3x**	**0.3x**	**0.4x**
EBITDA coverage (x)	24.9x	18.5x	19.3x	19.0x	18.3x
Current ratio (x)	3.4x	4.2x	4.1x	3.8x	3.4x
Quick ratio (x)	0.8x	0.8x	0.7x	0.8x	0.8x
Plantation metrics					
Land bank-k ha	162	167	172	177	182
Total planted area (nucleus) -k h	157	158	160	162	167
Mature planted - k ha	140	139	144	146	149
Mature planted -%	89%	88%	90%	90%	89%
Age	15.0	15.9	16.1	16.5	16.9
EBIT per mat.ha-US$/ha	3,048	3,059	1,872	2,213	2,368
Productivity					
FFB yield- t/ha	23.6	23.2	23.8	23.5	23.5
OER- %	20.9	21.0	20.9	20.9	20.9
Oil yield- %	4.9	4.9	5.0	4.9	4.9

Source: Company data, Morgan Stanley Research (e) estimates

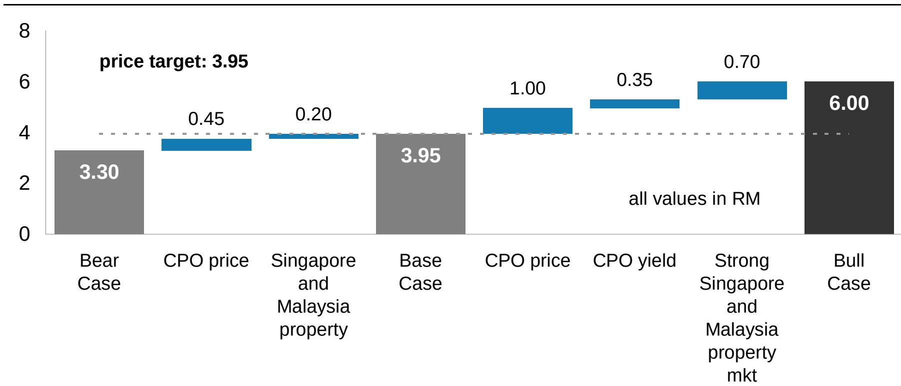
Risk-Reward Snapshot: IOI Corporation (IOIB.KL, RM5.56, UW, PT RM3.95)

Expensive Valuation on Plantation and Property Business



Price Target RM3.95		Derived from base-case RI valuation.
Bull Case RM6.00	~17x Bull Case F14e EPS	**Bull-case CPO prices with a pickup in Singapore property.** Bull-case CPO price at US$1,025/t and better volume (10% above base case) lifts plantation EBIT 30% over base case. Higher property earnings (15% above base case) from a recovery in Singapore's luxury property sales and overall pricing (10% above base). Bull case EPS ~20% above base case
Base Case RM3.95	~14 Base Case F14e EPS	**Base-case CPO prices and MS property forecast:** Base case CPO price forecast at US$900/t. We assume 5% decline in Spore property prices from 2014. Slow property sales in Singapore's luxury segment consume a large amount of IOI's capital and provide low returns.
Bear Case RM3.30	~14x Bear Case F14e EPS	**Bear-case CPO prices with sharper fall in Singapore property.** Bear-case CPO price US$700/t and lower volume cuts 25% from our base-case EPS. Weaker property prices (5% below base case) lower property earnings by 8% below base case. Bear EPS ~20% below base case.

CPO Prices and Singapore Property Drive Bull Case



Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis

- IOI has **limited organic growth** in CPO volume because of the low percentage of immature/young trees within its plantation.
- IOI **is increasingly focused on Singapore property**, which we believe is a low-return business. Our property analyst is cautious on the outlook for Singapore property prices.
- **Unattractive valuation:** The proposed property business spin off assumes full valuation of the property assets and more than 20x multiples on its plantation earnings at the current share price.
- IOI shares are up12% in the past three months, outperforming the group's -4%, in anticipation of the property business spin off. We see the share price as vulnerable to a pullback if the valuation from the property business is below expectation.

Key Value Drivers

- Singapore and Malaysia property volume sales and prices. A pickup in the property segment could reignite interest in IOI property business.

Potential Catalysts

- Further increase in CPO prices, with every 5% increase adding 5% to EPS.
- Better Malaysia/Singapore property prices, as every 5% increase in prices would add 3% to our 2014 EPS.

Upside risks to PT

- Property business spin-off at a high valuation.
- Higher CPO prices.
- Stronger-than-expected Singapore / Malaysia property market.

KL Kepong – Financial Summary

Profit and Loss Statement					
YE Sep 30 (RM mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Revenue	**10,743**	**10,570**	**8,819**	**10,139**	**12,951**
Plantation	1,586	1,179	1,023	1,292	1,229
Downstream	226	188	283	237	370
Retailing	23	28	0	0	0
Property development	1	37	37	38	41
Investment holding	46	35	36	37	38
Others	1	4	0	0	0
Corporate income/exp	229	145	50	50	50
Operating profit	**2,113**	**1,480**	**1,429**	**1,654**	**1,728**
Non-Operating Inc / (Exps)	(46)	(56)	(77)	(77)	(77)
Profit before tax	**2,066**	**1,425**	**1,352**	**1,577**	**1,651**
Tax	(421)	(300)	(297)	(347)	(363)
MI	(74)	(49)	(47)	(55)	(58)
Reported Net Income	1,571	1,211	1,007	1,174	1,229
MW Net Income	**1,558**	**1,054**	**1,007**	**1,174**	**1,229**
Shares outstanding (mn)	1,065	1,065	1,065	1,065	1,065
Reported EPS (RM)	1.48	1.14	0.95	1.10	1.15
MW EPS (RM)	**1.46**	**0.99**	**0.95**	**1.10**	**1.15**
DPS (RM)	0.85	0.65	0.47	0.55	0.58
DP Ratio (%)	58%	57%	50%	50%	50%

Cash Flow Statement					
YE Sep 30 (RM mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Profit Before Tax	2,066	1,425	1,352	1,577	1,651
Depreciation & amortization	208	216	313	356	397
Change in working capital	(746)	408	276	(179)	(407)
Others	(600)	(411)	(308)	(358)	(374)
Cash flow from operations	**928**	**1,638**	**1,633**	**1,396**	**1,267**
Capex	(283)	(675)	(1,094)	(888)	(921)
Others	23	280	-	-	-
Cash flow from investment	**(260)**	**(394)**	**(1,094)**	**(888)**	**(921)**
Equity raised/ (repurchased)	-	-	-	-	-
Debt raised/ (repaid)	399	436	-	-	-
Dividends paid	(679)	(938)	(649)	(523)	(594)
Others	13	(34)	0	0	0
Cash flow from financing	**(267)**	**(536)**	**(649)**	**(523)**	**(594)**
Net change in cash	402	708	(110)	(15)	(248)
Ending cash and equivalents	1,670	2,359	2,249	2,234	1,986
Free cash flow	**669**	**1,244**	**538**	**508**	**345**
Net debt / (cash)	**419**	**120**	**230**	**245**	**493**

Balance Sheet					
YE Sep 30 (RM mn)	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Cash and cash equivalents	1,670	2,359	2,249	2,234	1,986
Accounts receivable	1,367	1,111	927	1,066	1,361
Inventories	1,673	1,219	922	1,051	1,410
Others	68	126	126	126	126
Current assets	**4,777**	**4,815**	**4,223**	**4,476**	**4,883**
Biological assets	1,837	1,894	1,894	1,894	1,894
Net fixed assets	2,886	3,147	3,928	4,460	4,984
Others	1,469	1,528	1,538	1,549	1,560
Total assets	**10,970**	**11,383**	**11,584**	**12,379**	**13,321**
ST loans	1,564	696	696	696	696
Payables	768	841	636	725	973
Others	176	43	43	43	43
Total current liabilities	**2,508**	**1,580**	**1,375**	**1,463**	**1,711**
Long term debt	526	1,783	1,783	1,783	1,783
Other liabilities	470	513	513	513	513
Total liabilities	**3,504**	**3,876**	**3,670**	**3,759**	**4,007**
Shareholders' equity	7,074	7,110	7,468	8,120	8,756
Minority Interest	392	398	445	501	559

Ratio Analysis					
	2011	**2012**	**2013e**	**2014e**	**2015e**
Sales growth (%)	**43.4%**	**-1.6%**	**-24.4%**	**17.6%**	**31.3%**
Operating margins (%)	**19.7%**	**14.0%**	**16.2%**	**16.3%**	**13.3%**
EBITDA margins (%)	21.6%	16.1%	19.8%	19.8%	16.4%
Reported net margins (%)	14.6%	11.5%	11.4%	11.6%	9.5%
MW net margins (%)	**14.5%**	**10.0%**	**11.4%**	**11.6%**	**9.5%**
Dupont Analysis					
Op.ATO (x)	1.3x	1.1x	0.8x	0.9x	1.1x
Net margin (%)	14.5%	10.0%	11.4%	11.6%	9.5%
Leverage (x)	1.4x	1.4x	1.5x	1.5x	1.4x
ROE- YE BV (%)	25.9%	14.9%	14.2%	15.7%	15.1%
Solvency and Liquidity					
Gross debt/equity (%)	0.3x	0.3x	0.3x	0.3x	0.3x
Net debt (cash)/equity (%)	**0.1x**	**0.0x**	**0.0x**	**0.0x**	**0.1x**
EBITDA coverage (x)	31.3x	25.6x	19.8x	22.8x	24.1x
Current ratio (x)	1.9x	3.0x	3.1x	3.1x	2.9x
Quick ratio (x)	0.5x	0.7x	0.7x	0.7x	0.8x

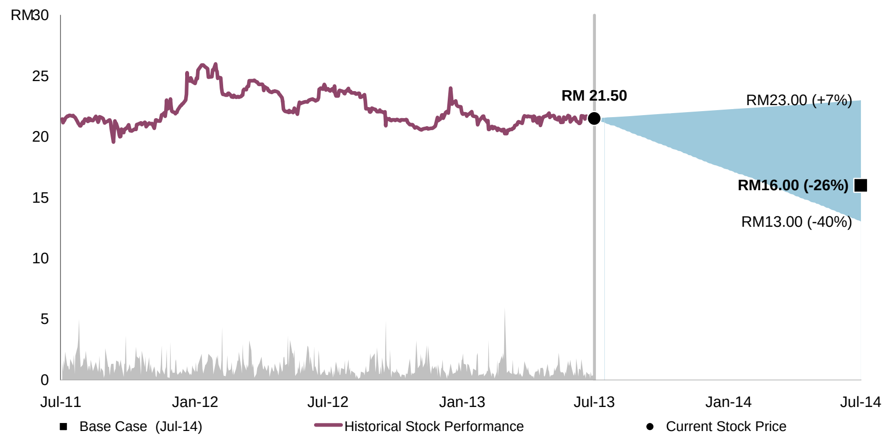
Key drivers	**2011**	**2012**	**2013e**	**2014e**	**2015e**
FFB nucleus (kt)	3,289	3,259	3,597	3,877	4,210
FFB plasma & 3rd party (kt)	569	697	697	697	697
CPO production nucleus (kt)	705	710	770	841	914
Blended Vol-Total (kt)	916	956	1,021	1,101	1,182
Blended Vol-Own (kt)	781	788	855	934	1,014
ASP (US$/t)	1,927	1,719	1,568	1,676	1,655
Unit Costs(to EBIT)	1,285	1,232	1,171	1,214	1,251
EBIT Mgn (US$/t)	642	487	397	461	404
Mgt CPO ASP-RM/t	2,958	2,839			
Mgt unit costs-RM/t					
CPO FOB MY- CY (US$/t)	1,087	937	800	900	950
CPO FOB MY- FY (US$/t)	1,102	998	771	900	950

Plantation metrics	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Land bank-k ha	248	249	249	249	249
Total planted area (nucleus) -l	187	193	210	226	243
Mature planted - k ha	148	155	164	172	183
Mature planted -%	79%	80%	78%	76%	75%
Age	12.6	12.5	12.8	13.1	13.6
EBIT per mat.ha-US$/ha	3,061	2,231	1,871	2,252	2,016
Productivity					
FFB yield- t/ha	22.3	21.0	22.0	22.5	23.0
OER- %	21.4	21.8	21.4	21.7	21.7
Oil yield- t/ha	4.8	4.6	4.7	4.9	5.0

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research Estimates

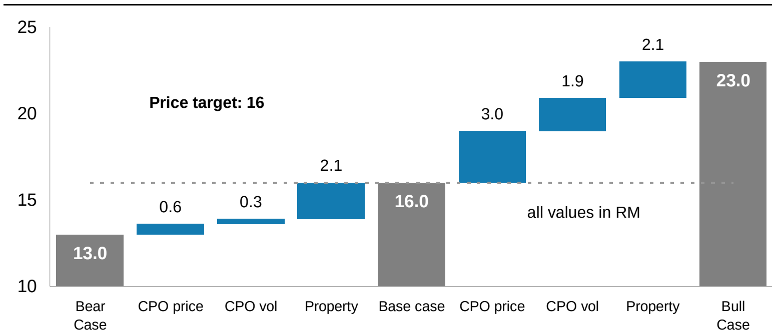
Risk-Reward Snapshot: KL Kepong (KLKK.KL, RM21.50, UW, PT RM16.00)

Downside Risk with Consensus Forecast Decline



Price Target RM16.00		Derived from our RI valuation plus 50% of landbank valuation
Bull Case RM23.0	~17x Bull Case 14e EPS	**Bull-case CPO pricing and full value for landbank:** Our bull-case CPO price (US$1,025/t) and higher volume (5% above base case) forecasts lifts plantation EBIT ~20% over our base case. In addition, with a more bullish view on property, we give full value to our estimates for its undervalued landbank, adding RM2.10/sh in additional property value above our base case. Bull case EPS ~15% above base case
Base Case RM16.0	~15x Base Case 14e EPS	**Base-case CPO prices and 50% of landbank values:** Base-case CPO price forecast, (US$900/t) and volume grows 9% YoY. We also give 50% of the value for its undervalued landbank, adding RM2.1/sh in property value to our earnings-based price target.
Bear Case RM13.0	~14x Bear Case 14e EPS	**Bear-case CPO prices, disappointing yields and no landbank values:** Bear-case CPO price (US$700/t) and lower volumes (5% below base case) disappoint on lower Indo yields, cutting 20% from our base-case EPS. Finally, we assume the market fails to give any recognition to its freehold landbank. Bear case EPS ~15% below base case.

CPO Prices, Volume and Property Values Drive Bull Case



Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis

- Management has a cautious outlook on plantation earnings and expects total net income to fall YoY in F2013.
- We see downside risk to consensus earnings forecasts.
- Valuation looks expensive at nearly 20x F2014e P/E and ~3x P/B**.**

Key Value Drivers

- **CPO prices/volume:** A 5% increase in pricing boosts KLK's 2014e EPS by 10%. We forecast that KLK will deliver higher CPO volume as the mature hectarege increases over 2011-15.
- **CPO refining margin:** A US$5/t increase in downstream margin could lift KLK's 2013e EPS by 1%.
- Dividend payout.

Potential Catalysts

- Decrease in CPO prices/volume.
- Decrease in CPO refining margin.
- Further dividend cut.

Key Upside Risks to PT

- Higher CPO prices above our forecast.
- Monetization of freehold land asset.
- Sharp recovery in Malaysia refining margin.

Sime Darby – Financial Summary

Profit and Loss Statement YE June 30 (RM in millions)	2011	2012	2013e	2014e	2015e
Revenue	**41,859**	**47,602**	**50,825**	**53,564**	**54,721**
Operating Expenses	(36,376)	(41,789)	(46,203)	(48,491)	(49,262)
Operating Profit	**5,483**	**5,813**	**4,622**	**5,073**	**5,460**
Plantation	*3,355*	*3,266*	*2,022*	*2,278*	*2,484*
Downstream	*(75)*	*(62)*	*85*	*103*	*107*
Property	*456*	*468*	*439*	*490*	*523*
Motors	*633*	*702*	*611*	*679*	*704*
Industrial	*1,068*	*1,351*	*1,282*	*1,275*	*1,268*
Energy and Utilities	*246*	*337*	*287*	*302*	*317*
Others	*(200)*	*(249)*	*(104)*	*(55)*	*56*
Non-Operating Inc / (Exps)	118	115	118	122	122
Interest income/expense	(153)	(207)	(280)	(274)	(288)
Profit Before Tax	**5,449**	**5,721**	**4,460**	**4,920**	**5,293**
Tax	(1,603)	(1,308)	(1,115)	(1,230)	(1,323)
Minority Interests	(183)	(196)	(149)	(164)	(177)
Reported Net income	3,663	4,216	3,196	3,526	3,793
MW Net Income	**3,663**	**4,216**	**3,196**	**3,526**	**3,793**
Shares outstanding (mn)	6,010	6,010	6,010	6,010	6,010
MW EPS (RM)	**0.61**	**0.70**	**0.53**	**0.59**	**0.63**
Reported EPS (RM)	0.61	0.69	0.53	0.59	0.63
DPS (RM)	0.30	0.35	0.27	0.30	0.32
DP Ratio (%)	49.2%	50.7%	50.7%	50.7%	50.7%

Cash Flow Statement YE June 30 (RM in millions)	2011	2012	2013e	2014e	2015e
Net income	3,663	4,216	3,196	3,526	3,793
Depreciation & amortization	1,013	1,161	1,560	1,737	1,886
Change in working capital	(2,024)	(1,902)	1,475	(307)	(142)
Others	741	(744)	236	235	255
Cash flow from operations	**3,393**	**2,731**	**6,468**	**5,190**	**5,792**
Capex	(1,644)	(1,500)	(5,769)	(3,382)	(3,199)
M&A	(90)	(1,966)	0	0	0
Biological assets	(84)	(70)	(1,442)	(845)	(800)
Others	126	179	(2,700)	(1,501)	(1,404)
Cash flow from Investment	**(1,524)**	**(3,217)**	**(7,027)**	**(4,038)**	**(3,804)**
Share Issuance	0	0	0	0	0
Borrowings	(527)	2,741	2,000	0	500
Dividends paid to shareholders	(727)	(1,998)	(2,103)	(1,620)	(1,787)
Others	(221)	(602)	(464)	(464)	(484)
Cash flow from Financing	**(1,475)**	**141**	**(567)**	**(2,084)**	**(1,771)**
Net change in cash	394	(345)	(1,127)	(932)	218
Ending cash and equivalents	5,528	5,106	3,979	3,047	3,264
Free cash flow	**1,749**	**1,231**	**699**	**1,808**	**2,593**
Net debt / (cash)	**1,535**	**4,698**	**7,825**	**8,757**	**9,039**

Balance Sheet YE June 30 (RM in millions)	2011	2012	2013e	2014e	2015e
Cash and cash equivalents	5,528	5,106	3,979	3,047	3,264
Accounts receivable	4,930	6,932	8,355	8,805	8,995
Inventories	7,355	9,492	7,595	7,971	8,098
Others	5,422	3,525	3,525	3,525	3,525
Current assets	**23,235**	**25,055**	**23,454**	**23,348**	**23,883**
Investment in associated companies	981	1,777	1,895	2,016	2,138
Property, Plant and Equipment, (Net)	12,656	14,004	18,525	20,517	22,208
Others	5,994	7,316	8,446	8,944	9,367
Total assets	**42,866**	**48,151**	**52,319**	**54,826**	**57,595**
ST Borrowings	3,055	5,873	5,873	5,873	5,873
Payables	8,573	9,477	10,478	10,996	11,171
Others	1,563	1,000	1,000	1,000	1,000
Total current liabilities	**13,191**	**16,349**	**17,350**	**17,868**	**18,043**
Long term debt	4,008	3,931	5,931	5,931	6,431
Other liabilities	850	982	982	982	982
Total liabilities	**18,049**	**21,261**	**24,262**	**24,781**	**25,456**
Shareholders' equity	24,030	26,016	27,109	29,015	31,021
Minority Interest	787	874	948	1,030	1,118

Ratio Analysis	2011	2012	2013e	2014e	2015e
Sales growth	**28.8%**	**13.7%**	**6.8%**	**5.4%**	**2.2%**
Operating margins	**13.1%**	**12.2%**	**9.1%**	**9.5%**	**10.0%**
EBITDA margins	15.5%	14.7%	12.2%	12.7%	13.4%
Reported net margins	8.8%	8.9%	6.3%	6.6%	6.9%
MW net margins	**8.8%**	**8.9%**	**6.3%**	**6.6%**	**6.9%**
Dupont Analysis					
Op. ATO	1.4x	1.5x	1.3x	1.3x	1.3x
Net margin	8.8%	8.9%	6.3%	6.6%	6.9%
Leverage	1.4x	1.4x	1.4x	1.5x	1.5x
ROE - YE BV	**17.9%**	**17.5%**	**12.3%**	**13.0%**	**13.1%**
Solvency and Liquidity					
Gross debt/equity (%)	28.5%	36.5%	42.1%	39.3%	38.3%
Net debt (cash)/equity (%)	**6.2%**	**17.5%**	**27.9%**	**29.1%**	**28.1%**
EBITDA coverage (x)	42.6x	33.7x	22.1x	24.8x	25.5x
Current ratio (x)	1.8x	1.5x	1.4x	1.3x	1.3x
Quick ratio (x)	0.8x	0.7x	0.7x	0.7x	0.7x

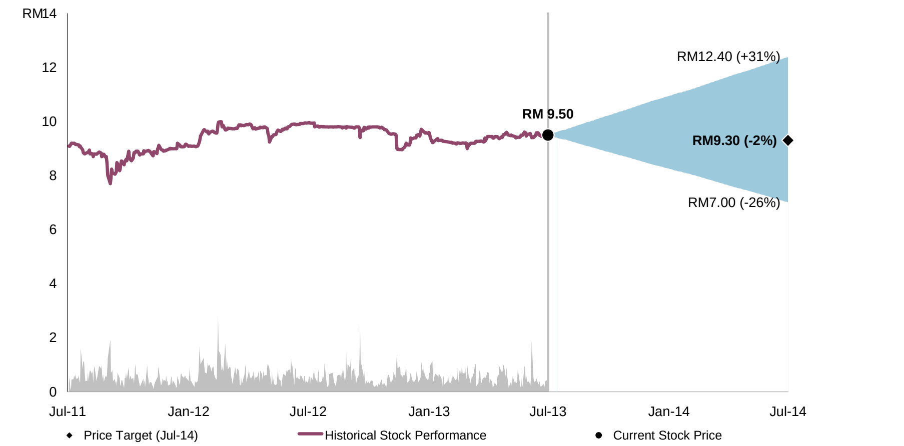
Key drivers	2011	2012	2013e	2014e	2015e
FFB nulceus - kt	10,111	9,763	9,914	9,962	9,895
FFB plasma & 3rd party (kt)	1,299	1,432	1,432	1,432	1,432
CPO nucleus-kt	2,168	2,130	2,165	2,177	2,162
CPO Blended Vol-Total (kt)	2,722	2,718	2,758	2,771	2,753
CPO Blended Vol-Own (kt)	2,412	2,370	2,410	2,422	2,405
ASP - (US$/t)	780	794	625	697	740
Unit Costs(to EBIT) - (US$/t)	337	352	354	384	395
EBIT Margin - (US$/t)	443	442	271	314	344
Mgt CPO ASP-RM/t	2,907	2,925			
CPO FOB MY- CY (US$/t)	1,087	937	800	900	950
CPO FOB MY- FY (US$/t)	1,055	1,024	796	900	950

Plantation metrics	2011	2012	2013e	2014e	2015e
Land bank-k ha	874	879	879	879	879
Total planted area (nucleus) -k ha	522	522	529	539	551
Mature planted - k ha	469	472	477	475	473
Mature planted -%	90%	90%	90%	88%	86%
Age	14.4	14.8	15.3	15.7	16.0
EBIT per mat.ha-US$/ha	2,048	1,995	1,231	1,438	1,574
Productivity					
FFB yield- t/ha	21.6	20.7	20.8	21.0	20.9
OER- %	21.4	21.8	21.8	21.9	21.8
CPO yield- t/ha	4.6	4.5	4.5	4.6	4.6

Source: Company data, Morgan Stanley Research (e) estimates

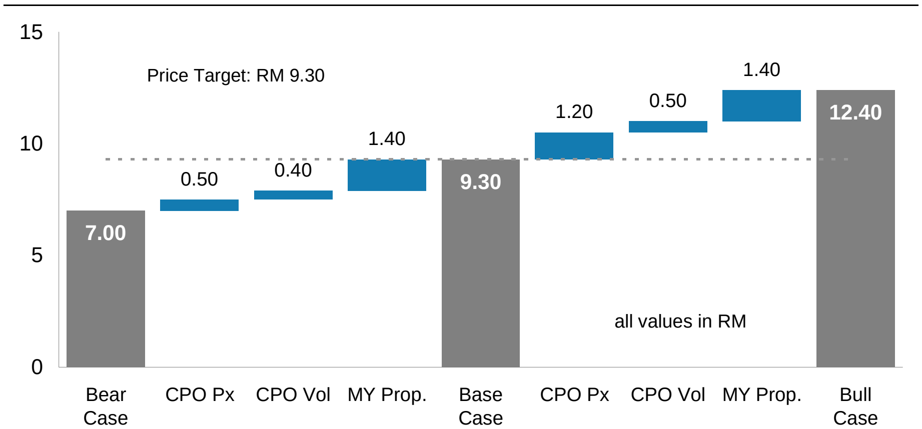
Risk-Reward Snapshot: Sime Darby (SIME.KL, RM9.50, EW, PT RM9.30)

Balanced Risk-Reward Profile



Price Target RM9.30		Derived from base case plus 50% land bank valuation
Bull Case RM12.40	17x Bull Case 13e EPS	**Bull-case CPO pricing and full value for land bank:** Applying our bull-case CPO price forecasts lifts F2013e EPS by nearly 20% over our base case, driving record EPS of RM0.73. We give full value to our estimates for its undervalued land bank, adding RM2.8/sh in additional property value
Base Case RM9.30	16x Base Case 13e EPS	**Base-case CPO pricing and 50% for land bank value:** We apply base-case CPO price forecast, which results in F2013e EPS of RM0.53. We recognize 50% of the unrecognized value of SIME's prime plantation land, adding RM1.4/sh to our earnings-based price target
Bear Case RM7.00	15x Bear Case 13e EPS	**Bear-case CPO prices, no land bank values.** We use bear-case CPO price forecast, resulting in a fall in F2013e EPS to RM0.44. We assume investors fail to recognize the unrecognized value of the prime plantation land under the bear case

CPO Prices, Volume and Property Values Are Key Drivers



Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis

- **Global slowdown concerns:** With 40% of EBIT from cyclical segments, including industrial, motors and property, management highlighted a cautious outlook from record F2012 levels.
- **Limited CPO volume growth:** We estimate SIME has the second-lowest CPO volume growth potential in our coverage, at just 3% over F2011-15.
- **Property development potential:** We estimate that ~30% of SIME's current equity value could be represented by the unrecognized value of its prime plantation land.

Key Value Drivers

- **Management actions to unlock unrecognized value of prime plantation land:** SIME has 16,500 ha of prime plantation land, which offers significant upside potential to its valuation.
- **CPO prices and volume:** A 5% higher CPO price than forecast could boost EPS by 6%.

Potential Catalysts

- Actions to convert plantation land to property development.
- CPO prices and volume.

Key Risks to PT

- **Downside:** Iconic distraction – London Battersea development may prove to be more challenging and distracting; government policies limiting the conversion of plantation land into property development.
- **Upside:** Favorable government contracts or projects giving SIME a medium-term earnings boost and stock re-rating; higher/lower CPO prices and volumes.

Valuation Methodology and Risks

Stock	Rating	Valuation methodology	Risks to our PT
Astra Agro	UW	We use Morgan Stanley's RI model to derive an intrinsic value for the plantation operations of AALI. The RI discounts our earnings forecast to 2020 by a cost of equity of 11.8% (increased from 11% previously). We use a risk-free rate of 3%, which we benchmark to other exporters of global commodities priced in and linked to US dollars, and an Indonesian equity risk premium of 8%, similar to what we use for the rest of coverage listed on the JSE. We raise our beta assumption to 1.1 from 1.0 to reflect AALI de-rating. We normalize future earnings at an ROE of 30%.	Upside: 1) Higher CPO prices than we forecast; 2) a higher yield from investment in yield improvement programs; 3) changes in Indonesian tax on CPO and refined products, which may affect trade-flows and domestic realized pricing.
Felda	UW	We use Morgan Stanley's RI valuation model, which is similar to a discounted cash flow model, to discount our earnings forecast through 2014 by a cost of equity. Our calculated cost of equity for FGVH is 7.9%. We use a risk-free rate of 3.5%, an equity risk premium of 5.5%, and a long-term growth rate of 3%, similar to the rate we apply for Malaysia plantation companies under our coverage. We assume a beta of 0.8, the average among the large-cap Malaysian plantation companies, as we believe FGVH's government ownership balances its higher risk profile from its complex structure, diversified business operation, and multiple geographical locations.	Upside: 1) Higher CPO prices than we forecast; 2) an earnings boost from potential M&A activities not yet announced by the company; 3) changes in Malaysian or Indonesian export tariffs on CPO and refined product; 4) changes in the Malaysian government's sugar support policy.
First Resources	OW	We use Morgan Stanley's RI model to derive an intrinsic value for the plantation operations. The model discounts our earnings forecast through 2015 by a cost of equity of 8.7%. We use a risk-free rate of 1.5%, which is the risk-free rate for Singapore-listed equities, benchmarked to the 10-year Singapore dollar bond. We add a country risk of 3ppt to reflect FR's primary business location of Indonesia. This is similar to the approach we use for IFAR. We assume a beta of 0.9x for FR based on Bloomberg data. We normalize future earnings at an ROE of 22%.	Downside: 1) Lower CPO prices than we forecast; 2) inability to sustain strong track record; 3) changes in Indonesian tax legislation relating to CPO and refined products, impairing trade flows and domestic realized pricing; and 4) uncertainties over land ownership and planting rights.

Stock	Rating	Valuation methodology	Risks to our PT
Golden Agri	OW	We use Morgan Stanley's residual income (RI) model to derive an intrinsic value for the operations of GGR. The RI model discounts our earnings forecast to 2015 by a cost of equity of 12.7%. As GGR is listed in Singapore, we use a risk-free rate of 1.5% (similar to the Singapore 10-year bond yield) and a Singapore equity risk premium of 5%. We add 3.0% to the country risk premium to reflect GGR's primary business location and management origin. We assume a beta of 1.4 for GGR.	Downside: 1) Lower CPO prices than we forecast; 2) inability to execute on a value-accretive acquisition; and 3) overpaying for an acquisition, or buying a company that has few synergies with current business operations.
Genting Plantations	UW	Our price target for GENP consists of the RI valuation of its plantation business (RM7 cut from RM8.9) and 20% of its estimated land bank value (RM1.1 cut from RM2.7). Our estimated land bank value for GENP is unchanged. GENP has nearly 4000 ha of prime freehold plantation land situated within the IDR (Iskandar Development Region) and around KLCC (Kuala Lumpur City Centre), our analysis breaks out and values the landbanks at the lower end of the precedent and current average price levels. We use Morgan Stanley's RI model to derive an intrinsic value for the plantation operation of GENP. The RI discounts our earnings forecast through 2015 by a cost of equity of 9.0%(increased from 8.5% previously). We use a risk-free rate of 3.5% and a Malaysia equity risk premium of 5.5%. We raise GENP beta from 0.9 to 1.0 to reflect GENP de-rating.	Upside: 1) CPO prices above our forecast; 2) higher FFB yield resulting in lower CPO volume and higher costs; and 3) accelerated sales of land.
Indofood Agri	OW	We use Morgan Stanley's residual income (RI) model to derive an intrinsic value for the operation of IFAR. The RI model discounts our earnings forecast through 2015 by a cost of equity of 13.5%. As IFAR is listed in Singapore, we use a risk-free rate of 1.5% (similar to the Singapore 10-year bond yield) and a Singapore equity risk premium of 5%. We add 3ppt to the country risk premium to reflect IFAR's primary business location and management origin. We assume a beta of 1.5 for IFAR.	Downside: 1) CPO prices below our forecast; 2) lower FFB yield resulting in lower CPO volume and higher costs; and 3) further delays in the sugar business.
IOI	UW	We use Morgan Stanley's residual income (RI) model to derive an intrinsic value for the operation of IOI. The RI model discounts our earnings forecasts through 2015 by a cost of equity of 9%. We assume a Malaysian risk-free rate of 3.5% and equity risk premium of 5.5% and a beta of 1.0 for IOI.	Upside: 1) higher CPO prices; 2) strong property prices in Singapore and Malaysia property markets; and 3) Malaysia policies in favor of Malaysian refiners.

Stock	Rating	Valuation methodology	Risks to our PT
KL Kepong	UW	Our price target for KLK consists of the RI valuation of its plantation business (RM13.7) and half of its estimated land bank value (RM2.1). We use Morgan Stanley's RI model to derive an intrinsic value for the plantation operation of KLK. The RI discounts our earnings forecasts through 2015 by a cost of equity of 7.6%. We use a risk-free rate of 3.5% (similar to Malaysia's 10-year bond yield) and Malaysia's equity risk premium of 5.5%. We assume a beta of 0.75 for KLK. We apply a higher cost of equity and beta to reflect KLK's de-rating.	Upside: 1) higher CPO prices than our forecast; 2) monetization of land bank; and 3) sharp recovery in refining margin with the revised Malaysia export tax policy on CPO.
Sime Darby	EW	Our price target for Sime consists of the RI valuation of its plantation business (RM7.9) and half of its estimated land bank value (RM1.4). We use Morgan Stanley's RI valuation model to derive an intrinsic value estimate for the operations of each company. The RI model discounts our earnings forecast through 2015 by a cost of equity of 7.9%. We assume a Malaysian risk-free rate of 3.5% and equity risk premium of 5.5% and a beta of 0.8 for Sime.	Downside: 1) Iconic distraction – London Battersea development may prove to be more challenging and distracting; and 2) government policies limiting the conversion of plantation land into property development Upside: 1) Favorable government contracts or projects giving SIME a medium-term earnings boost and stock re-rating; and 2) higher/lower CPO prices and volumes
Wilmar	OW	We use Morgan Stanley's residual income (RI) model to derive an intrinsic value for the operations of Wilmar. The RI discounts our earnings forecast through 2015 by a cost of equity of 8.5%. As Wilmar is listed in Singapore, we use a risk-free rate of 1.5% (similar to the Singapore 10-year bond yield) and a Singapore equity risk premium of 5%. We add 2ppt to the country risk premium to reflect Wilmar's diverse geographical locations. We assume a beta of 1.0 for Wilmar.	Downside: 1) Rebound in food inflation in China could drive government policy that caps pricing; 2) unexpected deterioration in the oilseed and grains business with lower margin or even losses; 3) lower CPO prices that are below our base-case forecast; and 4) lower refining margin from unhealthy competition between Malaysian and Indonesian refiners.

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Underweight/Sell	**469**	**16%**	**123**	**12%**	**26%**
Total	**2,861**		**1042**		

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The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

* Historical prices are not split adjusted.

Industry Coverage:Indonesia Agricultural Products

Company (Ticker)	Rating (as of)	Price* (07/17/2013)
Charles C. Spencer		
Astra Agro Lestari (AALI.JK)	U (07/18/2013)	Rp17,100
First Resources (FRLD.SI)	O (09/10/2012)	S$1.72
Golden Agri-Resources (GAGR.SI)	O (10/29/2012)	S$.55
Indofood Agri-Resources Limited (IFAR.SI)	O (09/10/2012)	S$.91

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Industry Coverage:Singapore Commodity Trading

Company (Ticker)	Rating (as of)	Price* (07/17/2013)
Charles C. Spencer		
Noble Group (NOBG.SI)	O (02/26/2013)	S$.91
Olam International (OLAM.SI)	E (12/17/2012)	S$1.65
Wilmar International (WLIL.SI)	O (04/12/2012)	S$3.11

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Industry Coverage:Malaysia Agricultural Products

Company (Ticker)	Rating (as of)	Price* (07/17/2013)
Charles C. Spencer		
Felda Global Ventures Holdings Bhd (FGVH.KL)	U (02/02/2013)	RM4.51
Genting Plantations (GENP.KL)	U (07/18/2013)	RM9.98
IOI Corporation (IOIB.KL)	U (04/12/2012)	RM5.52
Kuala Lumpur Kepong (KLKK.KL)	U (11/23/2012)	RM21.4
Sime Darby (SIME.KL)	E (04/12/2012)	RM9.51

Stock Ratings are subject to change. Please see latest research for each company.