

# Bitcoin

KLCI: 1741.05

**One Bitcoin can buy 352 years of palm oil supply**

**2017 Year End Target: 1830 points**

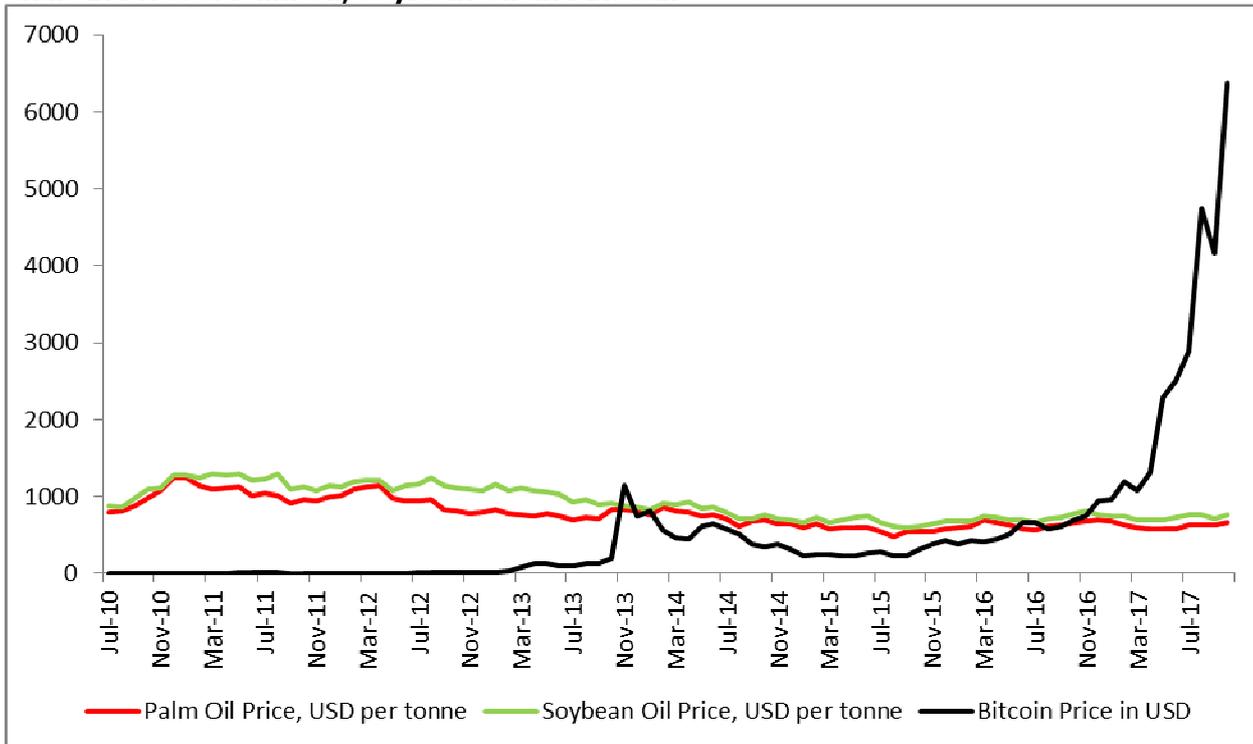
**KEY HIGHLIGHTS**

- One Bitcoin can buy more than 10,000 kilograms of palm oil
- Palm oil has much longer history than Bitcoin
- Despite the strong price performance, Bitcoin contribution towards society is limited
- We listed down three key weaknesses of Bitcoin and three advantages of palm oil
- In the plantation sector, we have BUY calls on IOICORP, KLK, GENP, TSH, TAANN and FIMACORP

**One Bitcoin = 10,000 kilograms of palm oil.** Do you know that you can buy more than 10,000 kilograms of palm oil with just one Bitcoin? That’s more than **352 years of consumption** for a human based on the global average annual edible oil consumption of 28.42 kilograms per capita! Note that all these calculations are based on the market price as of 2-November in which bitcoin was USD7000 each while 3 months futures palm oil was RM2841 per tonne. The exchange rate of USDMYR used in this calculation is 4.23.

Even if a person choose to consume other edible oil, one Bitcoin can still afford the oil for much more than a human lifetime as it is equivalent to 8,750 kilograms of soybean oil and 7,809 kilograms of rapeseed oil. This is effectively the supply of 308 years for soybean oil and 275 years for rapeseed oil.

**Chart 1: Price of Palm Oil, Soybean Oil and Bitcoin**



Source: Bloomberg

**Palm oil has much longer history than Bitcoin.** It is worth noting that palm oil has much longer history as the futures market has been developed for more than 30 years while Bitcoin history is less than 10 years. Palm oil also has relevant economic use as it is the most widely used cooking oil in the world while Bitcoin arguably has much lower direct economic use for human. So why is it that within a short span of 7 years, Bitcoin price has surged 83,750 times from USD0.08 each as of July-2010 to USD6700 as of 1-November-2017? And in comparison, palm oil price has increased by only around 10% in the past 7 years.

Despite the strong outperformance of Bitcoin prices against palm oil and many other commodities in the world, we believe that its real benefit towards society trails significantly. As shown in Table 1, we highlight three weaknesses of Bitcoin and three advantages of palm oil.

**Table 1: Summary of weaknesses of Bitcoin and advantages of palm oil**

No	Bitcoin	Palm Oil
1	Can be easily exploited for money laundering	Has been used as staple food since 5,000 years ago
2	High price volatility	Price movement is supported by fundamental factors
3	Breeds inequality	Provides sustainable source of food to feed the world

Source: MIDR Research

#### **Bitcoin: Can be easily exploited for money laundering**

As Bitcoin is not produced by any central banks in the world, the movement of money cannot be traced and hence there is strong tendency for money launderers to capitalize on this. Recently, Yuri Lebedev (a software engineer in Florida, United States) was sentenced to 16 months jail. The offense committed is related to money laundering for global hackers community - the methods used is by setting up an illegal Bitcoin exchange.

#### **Palm oil: Has been used as staple food since 5,000 years ago**

On the contrary, palm oil has been used as staple food since 5,000 years ago. There is archaeological evidence of the usage of palm oil in an Egyptian tomb located in Abydos. More importantly, the findings suggest that the trading of palm oil has existed at that time as palm oil is not produced in Egypt. Fast forward to 2017, more than 60 million tonnes of palm oil is consumed annually. It is also the most affordable edible oil in the world as its prices has been lower than other major edible oils such as soybean oil and rapeseed oil due to its efficiency. For the same area of plantation land, palm oil production is up to ten times more than other edible oils.

#### **Bitcoin: High price volatility**

Secondly, the price volatility of Bitcoin is high and there is high chance of investors (or speculators) to lose money. In the past six months, our data shows that the Coefficient of Variation for Bitcoin prices is 85% and this is much higher than Bursa Malaysia Derivatives Futures Crude Palm Oil (FCPO) Coefficient of Variation at 8%. Although some lucky speculators may have earned from Bitcoin trading, it is good to be mindful that some may actually lose more than 35% in less than a week. For example, Bitcoin price tumbled 37% from USD4600 on 7-Sep to the lowest point of USD2900 on 12-Sep-2017. At that time, the price crashed after China banned the initial coin offerings (ICO) by digital token fundraisers.

#### **Palm oil: Price movement is supported by fundamental factors**

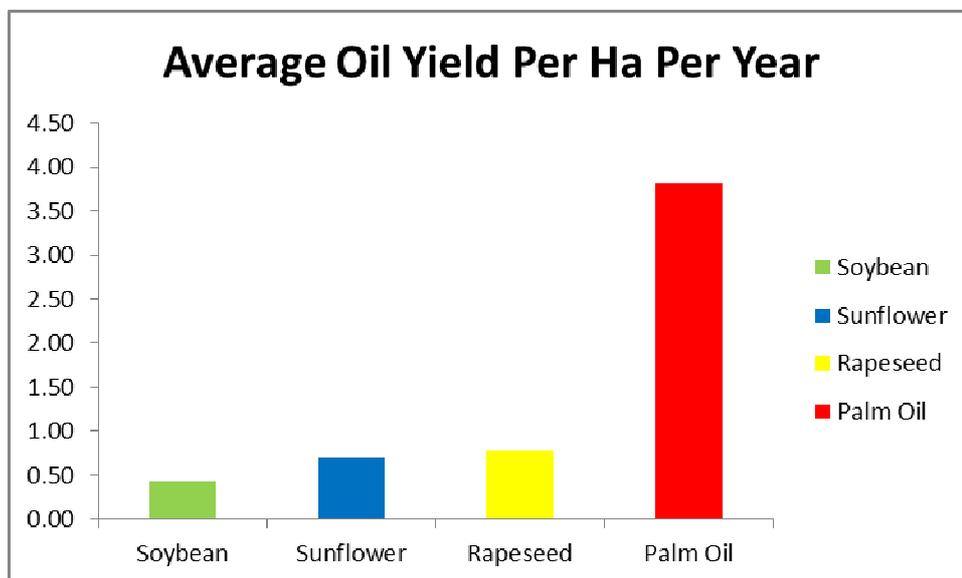
On the contrary, the movement of palm oil prices are influenced by fundamental factors which have direct impact on its demand and supply. These factors include weather, price of competing vegetable oils (especially soybean oil), monthly inventory data from Malaysia Palm Oil Board (MPOB) and the movement of US Dollar against Malaysia Ringgit. The FCPO market is also supported by delivery of the physical palm oil. According to Bursa Malaysia website, the contract grade and delivery points are "Crude Palm Oil of good merchantable quality, in bulk, unbleached, in Port Tank Installations approved by the Exchange located at the option of the seller at Port Kelang, Penang/Butterworth and Pasir Gudang (Johor)...." For full specifications, it is available at Bursa Malaysia website.

**Bitcoin: Breeds inequality**

Lastly, we believe that Bitcoin investment breeds inequality. A random speculator who happens to be lucky and bought Bitcoin at low price enjoyed a significant increase in the wealth despite very limited (or close to none) contribution to the society.

**Palm oil: Provides sustainable source of food to feed the world**

On the flipside, oil palm planters (public listed companies and smallholders included) have huge contributions to the society. With the current global population of 7.6 billion and the growth is still continuing, it is important to find a sustainable source of food to feed the world. We believe that palm oil is one of the solutions as it requires the least amount of land to produce the maximum edible oil as compared to all other edible oils as shown in Chart 1. The tree also has long economy lifecycle of 25 years as compared to other crops which is short term in nature.

**Chart 1: Palm oil yield is better than other edible oils**

Source: MIDF Research

**Conclusion**

To conclude, we believe that Bitcoin is a speculative asset and one must be mindful of potential huge losses. On the contrary, we believe that oil palm plantations industry has great potential in the long run. This industry has thrived and blossomed for 100 years in Malaysia and we expect it to continue to do well in the next 100 years. While some would argue that comparing Bitcoin to palm oil is like comparing apples to oranges, we believe that the comparison is valid as it brings new perspective to the way we look at Bitcoin and palm oil.

In the plantation sector, we have BUY calls on IOICORP, KLK, GENP, TSH, TAANN and FIMACORP. Details on the valuation basis are provided in Table 2. 

**Table 2: Basis of valuation**

<b>Company</b>	<b>TP</b>	<b>Call</b>	<b>Valuation Basis</b>
IOICORP	5.50	BUY	26.3x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
KLK	29.65	BUY	26.8x Fwd. PE on FY17F earnings reflecting +1.0SD valuation.
GENP	12.60	BUY	SOP with plantation sector @ 24.7x FY17F PE. 24.7x is the lower valuation between IOICORP and KLK.
TSH	2.25	BUY	22.3x Fwd. PE on FY17F earnings reflecting mean valuation.
TAANN	4.50	BUY	16.6x Fwd. PE on FY17F earnings reflecting mean valuation.
FIMACORP	2.60	BUY	SOP with plantation sector @ 11.5x FY18F PE. 11.5x is based on 40% discount to average Target PE for mid cap planters.

Source: MIDF Research Estimate

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.