



PLANTATION

Palm inventory down 8.6% MoM to 1.57mil tonnes

NEUTRAL

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Rationale for report: Sector update

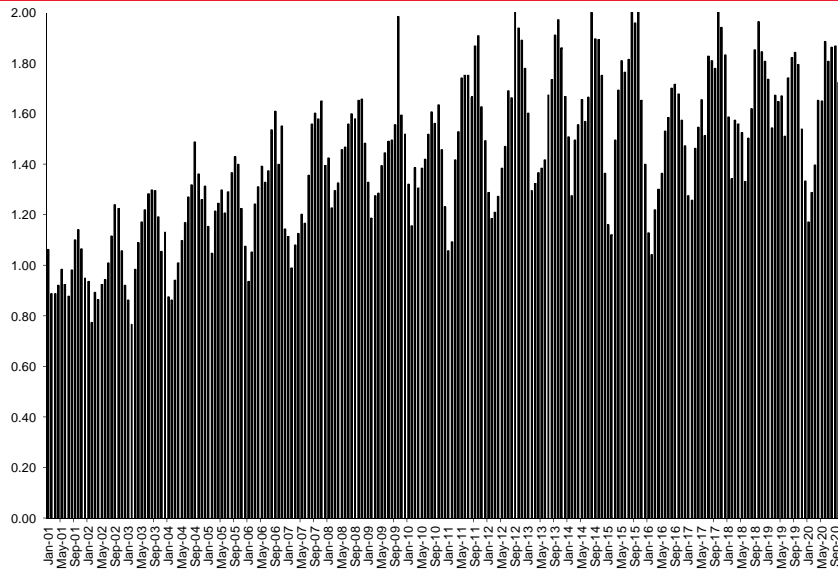
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for October 2020. After inching up by 1.2% MoM to 1.73mil tonnes as at end-September, Malaysia's palm stockpiles declined by 8.6% MoM to 1.57mil tonnes as at end-October. *Bloomberg* consensus had expected Malaysia's palm inventory to be 1.58mil tonnes as at end-October. The 8.6% MoM fall in palm inventory in October was largely due to a 7.7% slide in production and 3.8% rise in exports. Contrary to previous expectations, we reckon that Malaysia's palm inventory would stay below 2.0mil tonnes for the rest of the year. We think that average palm inventory in Malaysia would be about 1.7mil to 1.8mil tonnes in 2020E vs. 2.5mil tonnes in 2019.
- CPO production in Malaysia shrank by 7.7% MoM to 1.72mil tonnes in October mainly due to an 11.2% fall in Peninsular Malaysia. Surprisingly, CPO production in Sabah slid by a mere 0.6% MoM in October in spite of a smaller workforce. The small MoM decline in CPO production in Sabah implies that the state's CPO output could have been stronger in October if the labour force was allowed to operate in full. Recall that oil palm estates in Sabah were only allowed to operate at 50% of the normal workforce during the MCO (movement control order) period. Also, palm oil mills in Sabah were only allowed to operate from 6am to 6pm instead of the usual 20 hours per day.
- We attribute the MoM slide in CPO production in Peninsular Malaysia to a shortage of foreign labour and tree stress. According to an industry player, the shortage in estate workers is more acute in Peninsular Malaysia compared with Sabah. In Sarawak, CPO production dropped by 6.9% MoM to 370,105 tonnes in October.
- Comparing 10M2020 against 10M2019, Malaysia's CPO production declined by 4.0% to 16.3mil tonnes. We think that Malaysia's CPO output would amount to 19.9mil tonnes in 2020E, which is the same as 2019. Looking ahead, *Oil World* estimates Malaysia's CPO production to be flat in 2021F. *Oil World* also forecasts Indonesia's CPO output to increase by three million tonnes to 46mil tonnes in 2021F. The Indonesia Palm Oil Association estimates the country's CPO production to rise by two million tonnes to 49mil tonnes in 2021F.
- FFB yields in Malaysia were weak in 10M2020 dragged by the shortage of estate workers and lagged impact of the drought and reduction in fertiliser application, which took place in 2019. Foreign workers have not been allowed to enter Malaysia this year due to the Covid-19 outbreak. As a result, some plantation companies are experiencing a labour shortage of 5% to 10%. Average FFB yield in Malaysia was 12.7 tonnes/ha in 9M2020 vs. 13.1 tonnes/ha in 9M2019. In Peninsular Malaysia, average FFB yield was 13.6 tonnes/ha in 9M2020 compared with 14.0 tonnes/ha in 9M2019. Average FFB yield in Sabah was 12.6 tonnes/ha in 9M2020 against 13.1 tonnes/ha in 9M2019.
- Malaysia's CPO exports rose by 3.8% MoM to 1.67mil tonnes in October 2020. Malaysia's CPO exports slid by 7.7% YoY to 14.5mil tonnes in 10M2020. The 7.7% YoY decline in CPO exports in 10M2020 was mainly due to a 52.2% plunge in exports to India and 7.9% slide in shipments to the EU. These were partly offset by a 20.5% increase in China's demand. Although India's palm demand was robust in the past few months, the country's palm imports were hit by the Covid-19 economic lockdown in 2Q2020.
- We are NEUTRAL on the plantation sector. Our average CPO price assumption is RM2,400/tonne for 2021F presently. We believe that CPO production in Sabah would recover in November as the workforce restrictions have been lifted. Plantation estates can now work at full capacity.

TABLE 1 : VALUATION MATRIX

	Share price	Basic EPS (sen)		Basic PE (x)		Fair values	Upside	FY20E/FY21F	FY20E/FY21F	Rec
	(RM)	FY20E/FY21F	FY21F/FY22F	FY20E/FY21F	FY21F/FY22F	(RM)		DPS (sen)	Div yield	
IOI Corp	4.52	15.8	16.4	28.6	27.6	4.30	-4.9%	8.5	1.9%	Hold
KLK	22.80	72.6	90.5	31.4	25.2	24.40	7.0%	50.0	2.2%	Hold
SD Plantation	5.15	7.6	13.8	67.8	37.3	5.50	6.8%	8.0	1.6%	Hold
TH Plantations	0.485	2.6	4.0	18.7	12.1	0.33	-32.0%	2.0	4.1%	Sell
Gent Plant	10.00	27.2	36.0	36.8	27.8	9.72	-2.8%	14.0	1.4%	Hold
UJM Plantations	1.77	6.2	7.2	28.5	24.6	1.70	-4.0%	3.0	1.7%	Hold
TSH Resources	1.080	4.7	4.9	23.0	22.0	1.21	12.0%	1.5	1.4%	Buy
FGV Holdings	1.17	-1.4	2.1	-83.6	55.7	1.14	-2.6%	2.5	2.1%	Hold

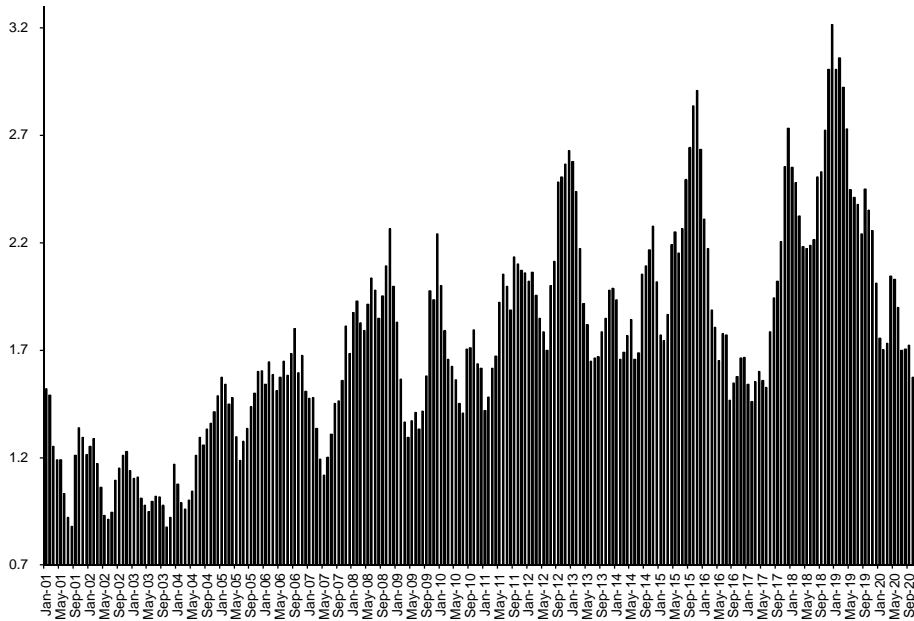
Source: AmInvestment Bank

CHART 1 : CPO PRODUCTION (MILLION TONNES)



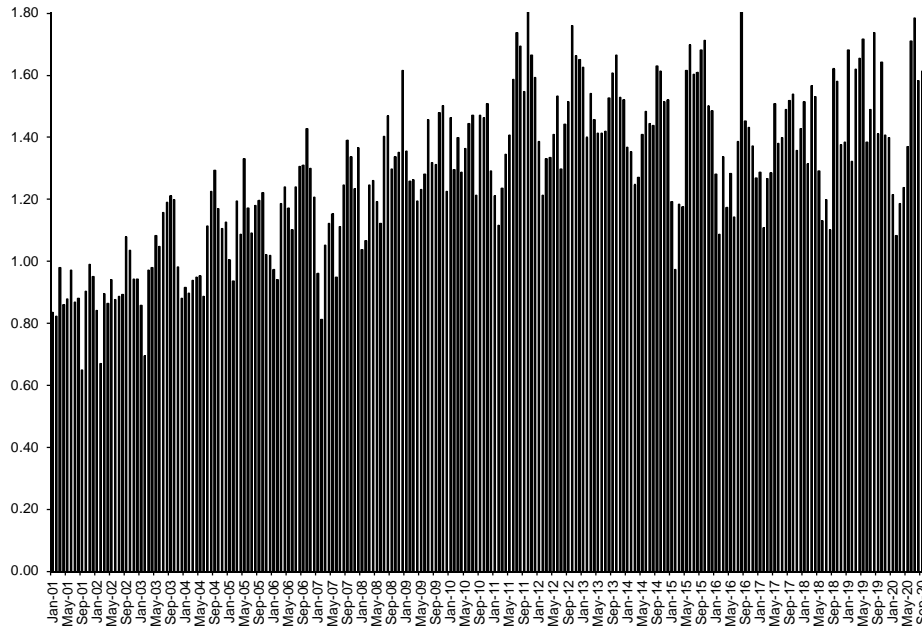
Source: MPOB

CHART 2 : CPO INVENTORY (MILLION TONNES)



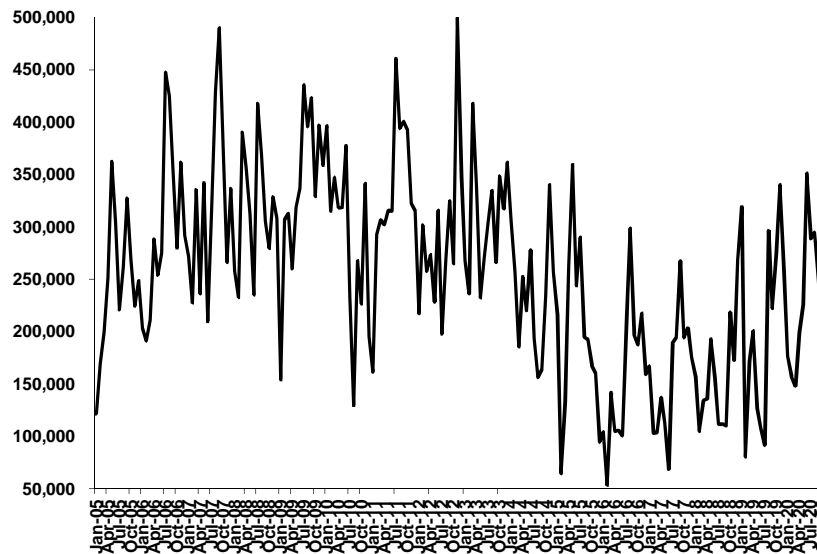
Source: MPOB

CHART 3 : CPO EXPORTS (MILLION TONNES)



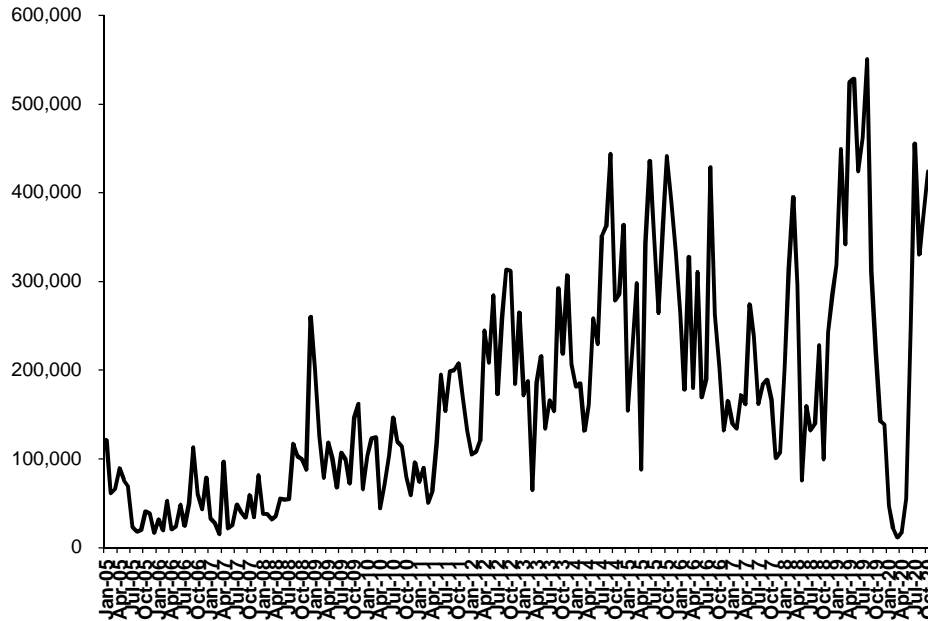
Source: MPOB

CHART 4 : EXPORTS TO CHINA (TONNES)



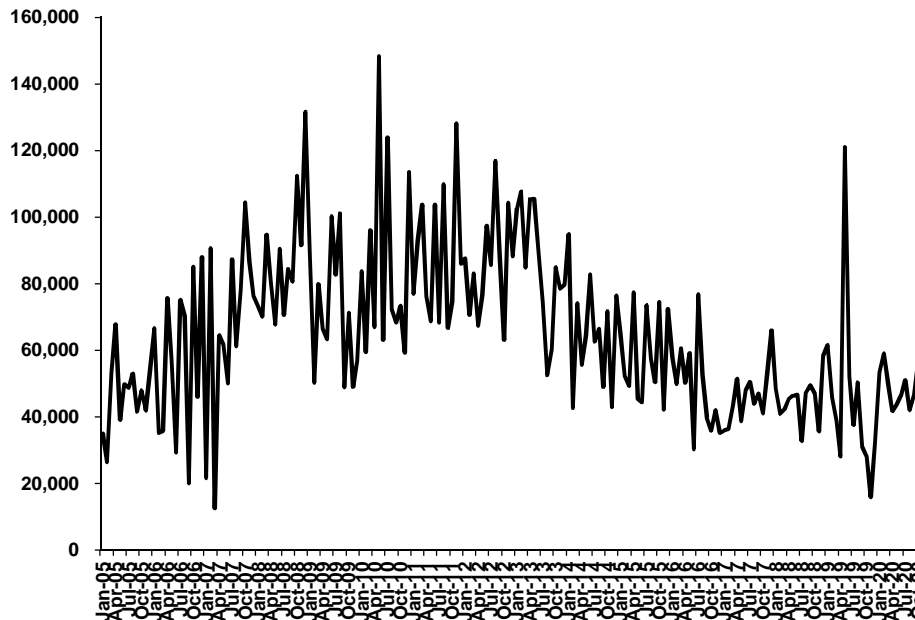
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES)



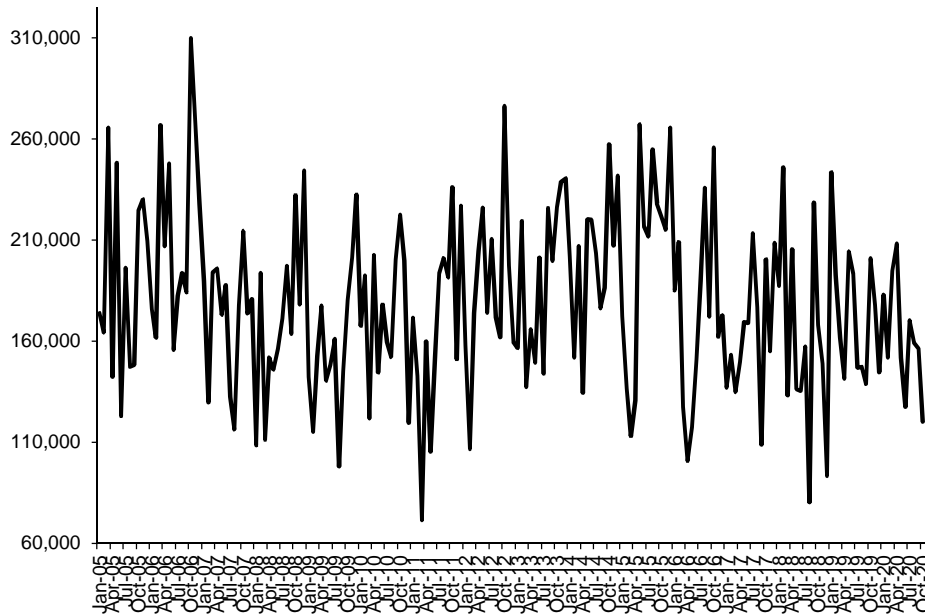
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES)



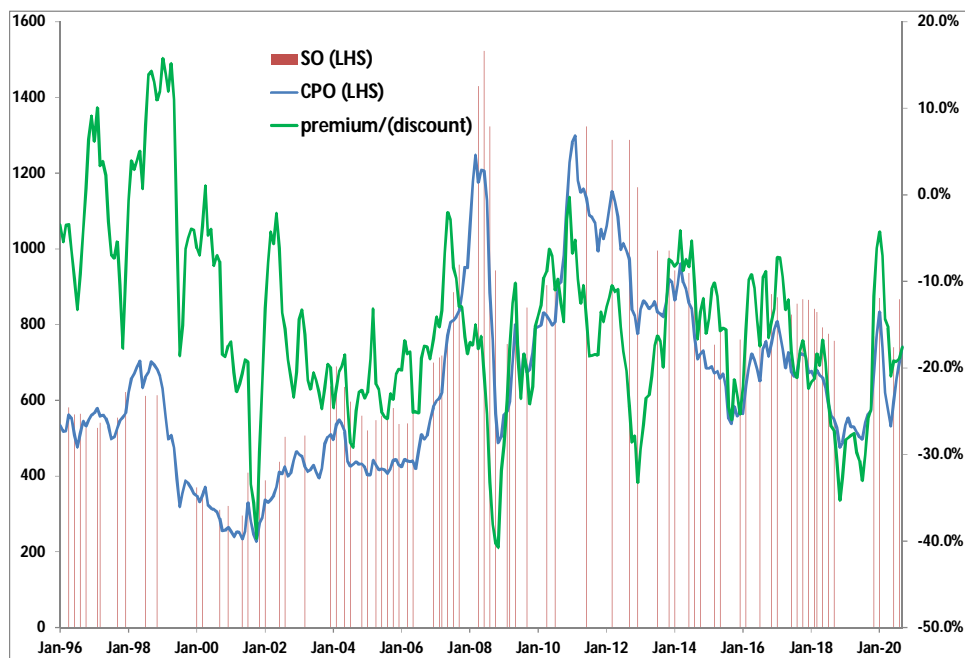
Source: MPOB

CHART 7 : EXPORTS TO EU (TONNES)



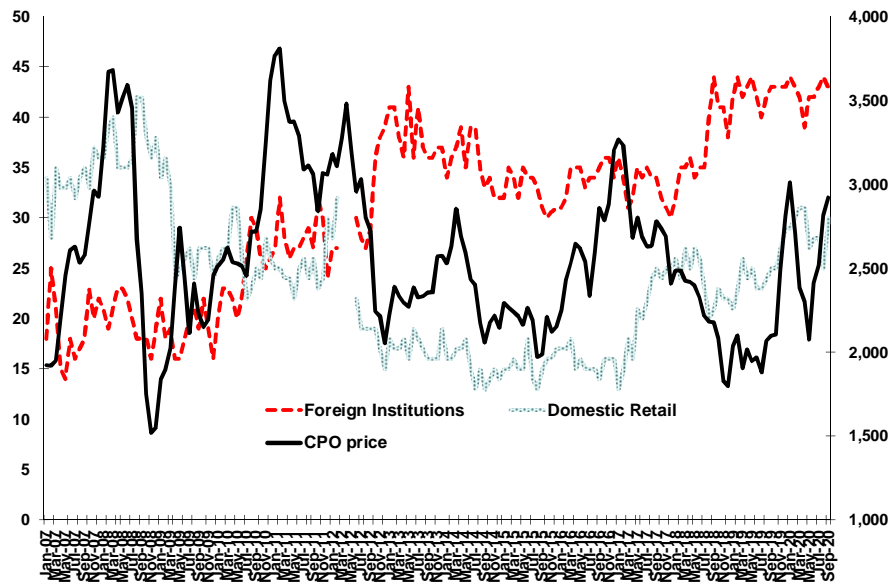
Source: MPOB

CHART 8 : PRICE DISCOUNT (%) BETWEEN CPO (US\$/TONNE) AND SOYBEAN OIL (US\$/TONNE) (UNTIL SEPT 2020)



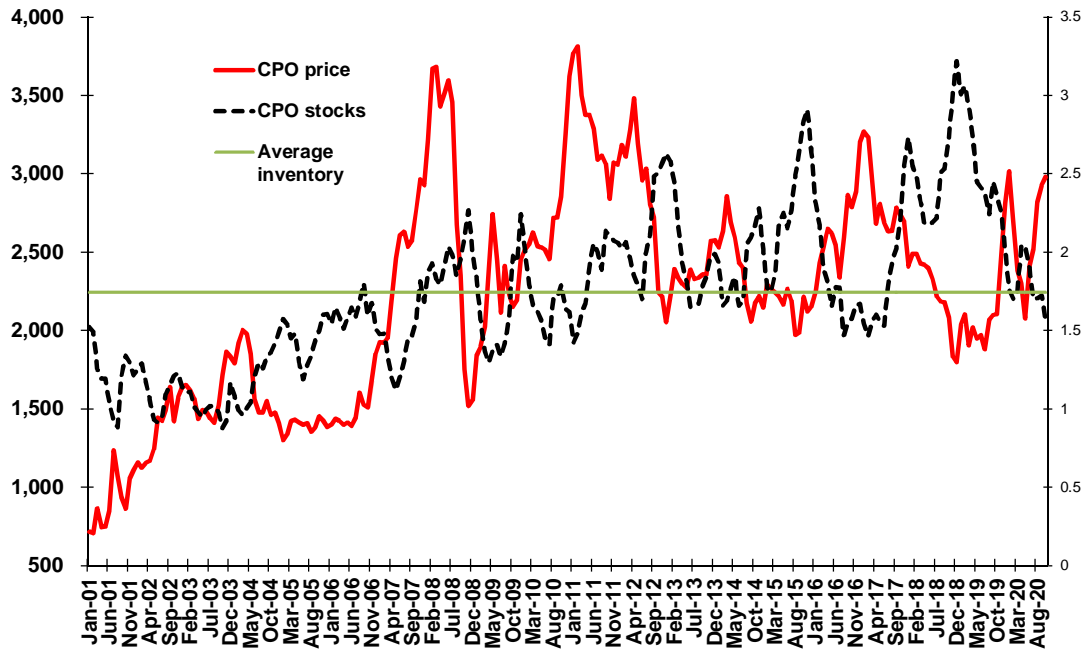
Source: MPOB

CHART 9 : MARKET DEMOGRAPHICS OF CPO FUTURES (%) VS. CPO PRICE (RM/TONNE) (UP TO SEP 2020)



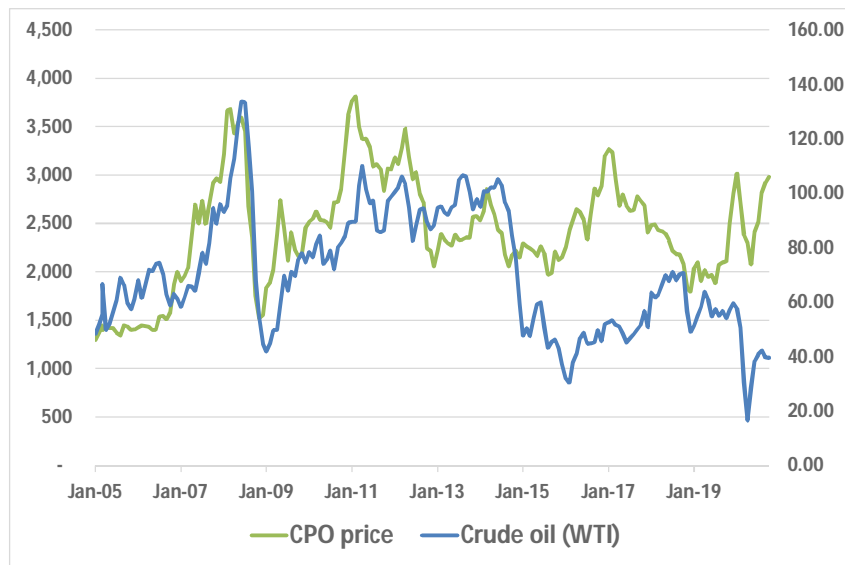
Source: Bursa Malaysia

CHART 10 : CPO INVENTORY (MILLION TONNES) VS. CPO PRICE (RM/TONNE)



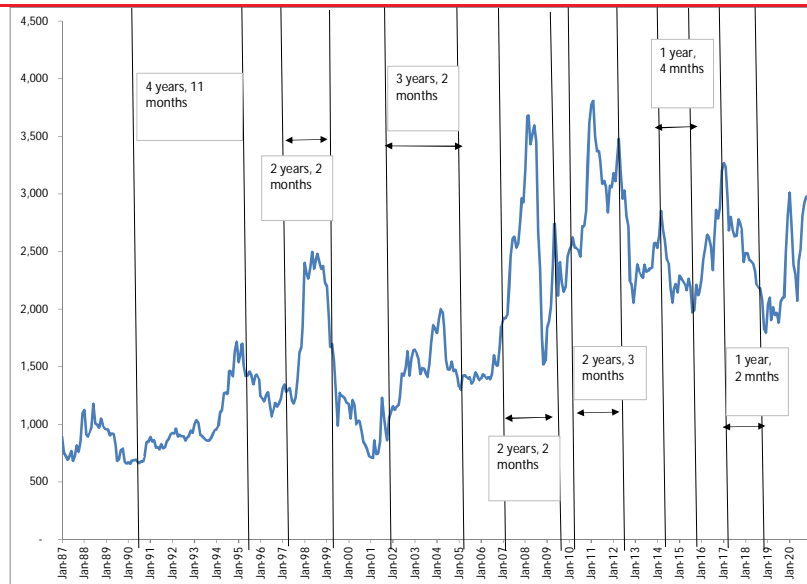
Source: MPOB

CHART 11 : CPO PRICE (RM/TONNE) VS. CRUDE OIL (US\$/BARREL)



Source: MPOB, Bloomberg

CHART 12 : HISTORICAL CPO PRICE CYCLE (RM/TONNE)



Source: MPOB

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