



PLANTATION

*Lowest palm inventory since June 2007***NEUTRAL**

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Rationale for report: Sector update

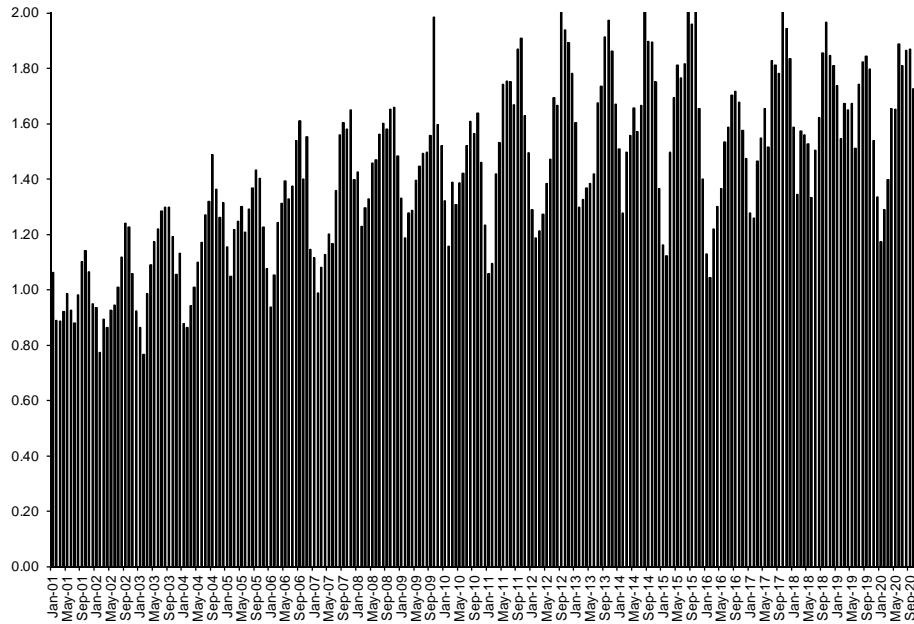
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for December 2020. Malaysia's palm stockpiles fell by 19.0% to 1.26mil tonnes as at end-December 2020 from 1.56mil tonnes as at end-November. *Bloomberg* consensus had forecast a palm inventory level of 1.18mil tonnes for December 2020. We believe that palm stockpiles in Malaysia exceeded consensus estimates as palm imports surged by 113.7% to 319,531 tonnes in December 2020. Malaysia's palm inventory of 1.26mil tonnes in December 2020 was the lowest monthly level since June 2007's 1.20mil tonnes.
- Palm imports by downstream companies in Malaysia rose in the last few months of 2020 as the price discrepancy between CPO in Malaysia and Indonesia widened. Palm imports climbed by 164.9% MoM in November and 113.7% MoM in December 2020. Comparing 2020 against 2019, Malaysia's palm imports edged down by 1.0% to 1.2mil tonnes. Palm imports only started rising from November 2020 onwards as Indonesia raised the CPO export tax and levy. Going forward, we believe that palm imports would continue to increase as the CPO export and levy are envisaged to drag CPO prices in Indonesia lower. Indonesia raised its CPO export levy to US\$225/tonne in January 2021 from US\$180/tonne in December 2020. Indonesia also increased its CPO export tax to US\$74/tonne in January 2021 from US\$33/tonne in December 2020.
- On the back of low inventory levels, CPO prices surged in 4Q2020. Average MPOB spot price was RM3,341/tonne in 4Q2020 compared with RM2,753/tonne in 3Q2020. On a yearly basis, average MPOB spot price was RM2,765/tonne in 2020 vs. RM2,119/tonne in 2019. We believe that upstream earnings of the plantation companies would be healthy QoQ in 4Q2020 underpinned by robust palm product prices. However, integrated companies such as IOI Corporation and KL Kepong may face weaker downstream profits in 4Q2020 as higher costs of raw materials squeeze operating profit margins.
- Malaysia's CPO production fell by 10.6% MoM to 1.33mil tonnes in December 2020 as the seasonally weaker output period set in. Going forward, there is a possibility that heavy rains in Peninsular Malaysia may affect industry FFB yields in January 2021. Comparing 2020 against 2019, Malaysia's CPO output contracted by 3.6% to 19.1mil tonnes from 19.9mil tonnes. This was due to labour shortage, lagged impact of the reduction in fertiliser application in 2019 by smallholders and lagged effects of 2019's drought and haze.
- Going forward, *Oil World* has forecast CPO production in Malaysia to inch up by 1.9% to 19.5mil tonnes in 2021F from 19.1mil tonnes in 2020. *Oil World* also estimates CPO output in Indonesia to increase by 8.1% to 45.4mil tonnes in 2021F from 42.0mil tonnes in 2020E.
- Malaysia's CPO exports expanded by 24.7% MoM to 1.6mil tonnes in December 2020 mainly due to 168.9% jump in shipments to India. This helped compensate for a 51.0% fall in China's demand and 23.7% decline in exports to the EU. On a yearly basis, Malaysia's CPO exports slid by 5.8% to 17.4mil tonnes in 2020 from 18.5mil tonnes in 2019.
- We are NEUTRAL on the plantation sector. At current prices, we believe that there is more downside to CPO prices than upside. Our average CPO price assumption is RM2,500/tonne for 2021F. We believe that CPO production in Indonesia would recover in 2021F.

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	4.50	15.8	16.7	28.5	26.9	4.30	-4.4%	8.5	1.9%	Hold
KLK	24.70	91.9	95.6	26.9	25.8	24.80	0.4%	55.0	2.2%	Hold
SD Plantation	5.21	10.8	13.9	48.2	37.5	5.55	6.5%	8.0	1.5%	Hold
Gent Plant	9.93	27.3	37.0	36.4	26.8	10.00	0.7%	14.0	1.4%	Hold
IJM Plantations	1.92	7.0	7.6	27.4	25.3	1.90	-1.0%	3.0	1.6%	Hold
TSH Resources	1.130	6.0	6.2	18.8	18.2	1.35	19.5%	1.5	1.3%	Buy
FGV Holdings	1.28	0.7	2.4	182.9	53.3	1.26	-1.6%	2.5	2.0%	Hold

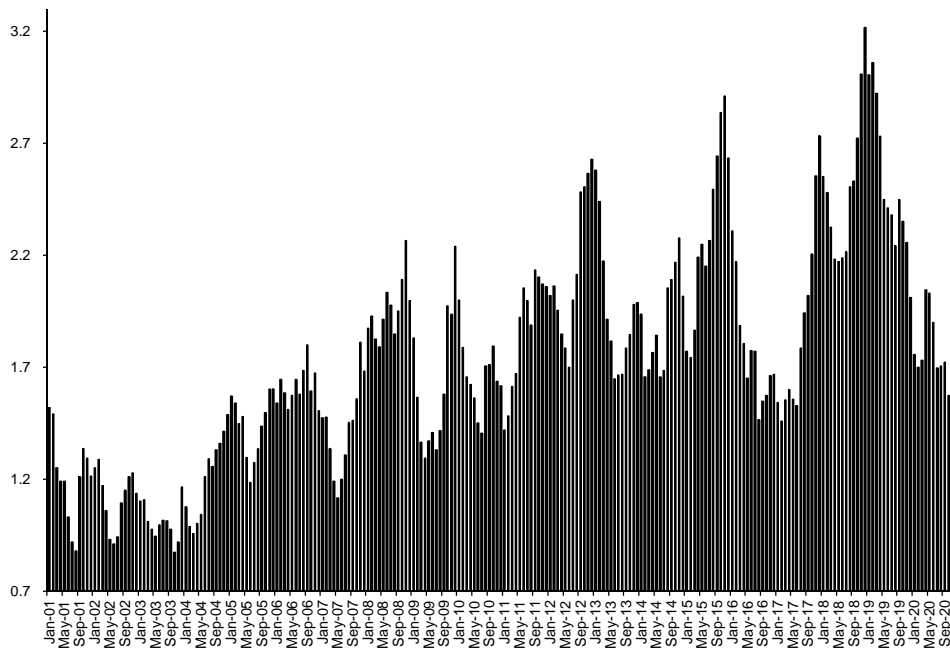
Source: AmInvestment Bank

CHART 1 : CPO PRODUCTION (MILLION TONNES)



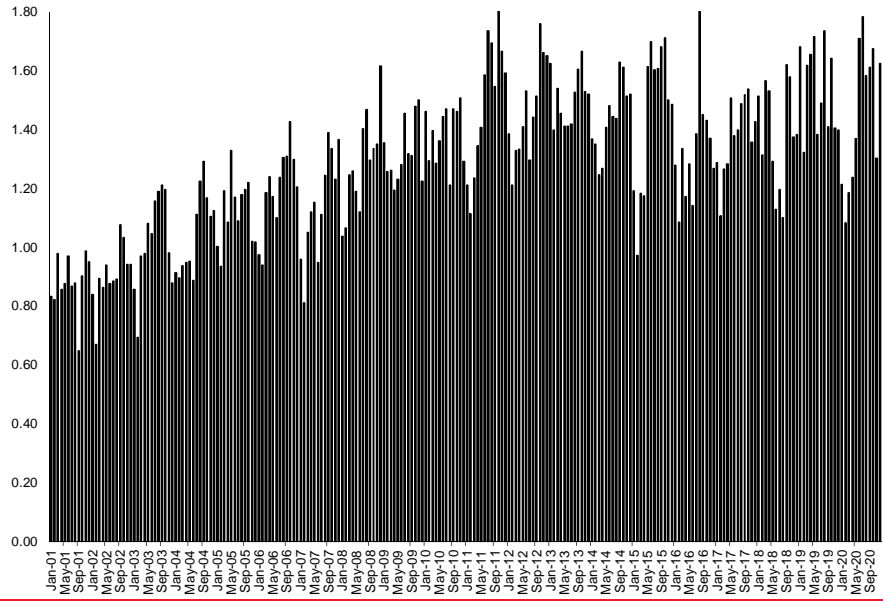
Source: MPOB

CHART 2 : CPO INVENTORY (MILLION TONNES)



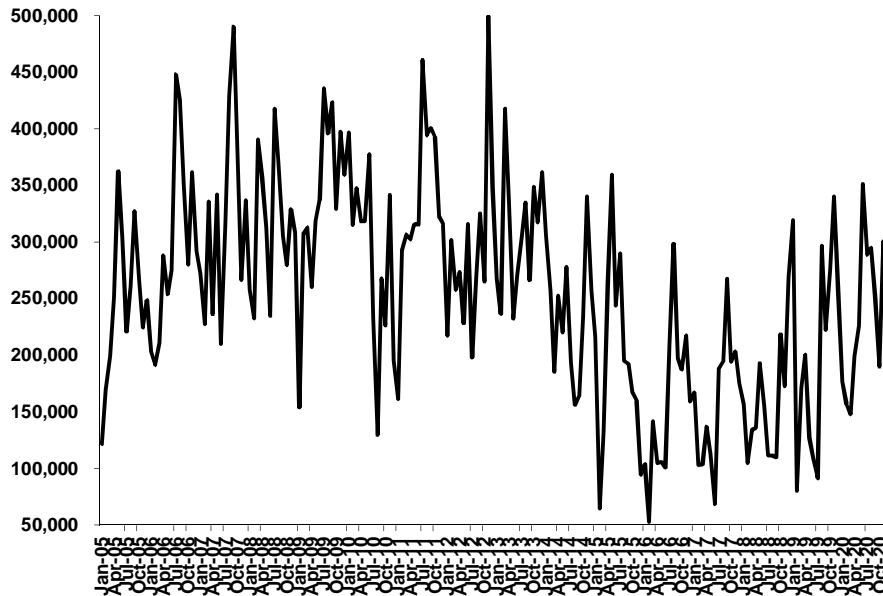
Source: MPOB

CHART 3 : CPO EXPORTS (MILLION TONNES)



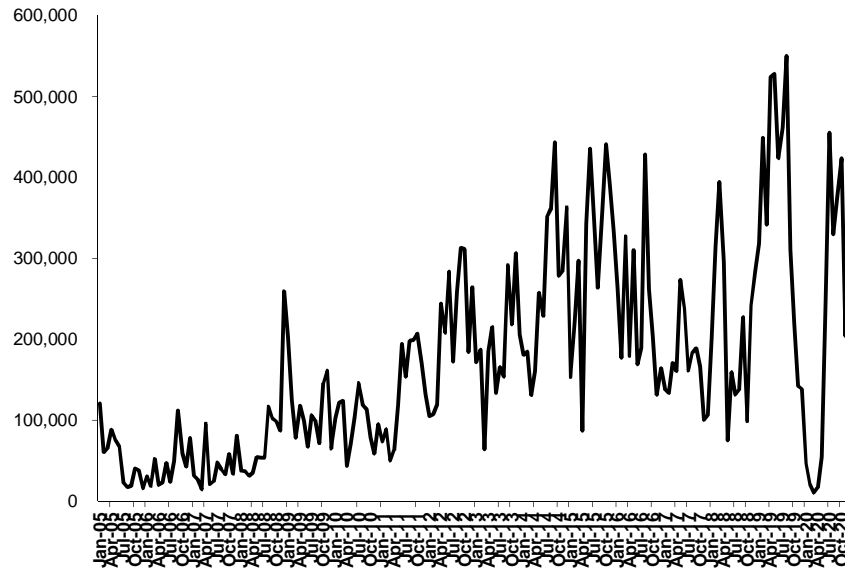
Source: MPOB

CHART 4 : EXPORTS TO CHINA (TONNES)



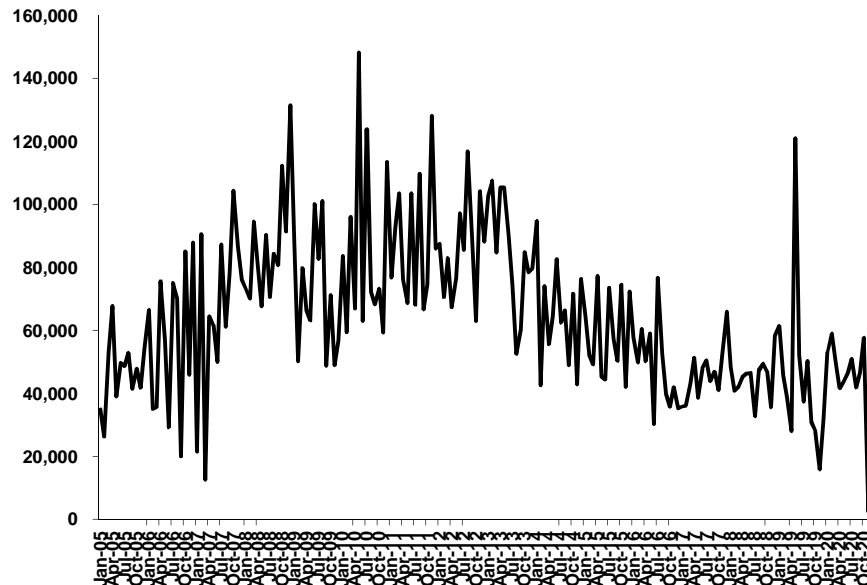
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES)



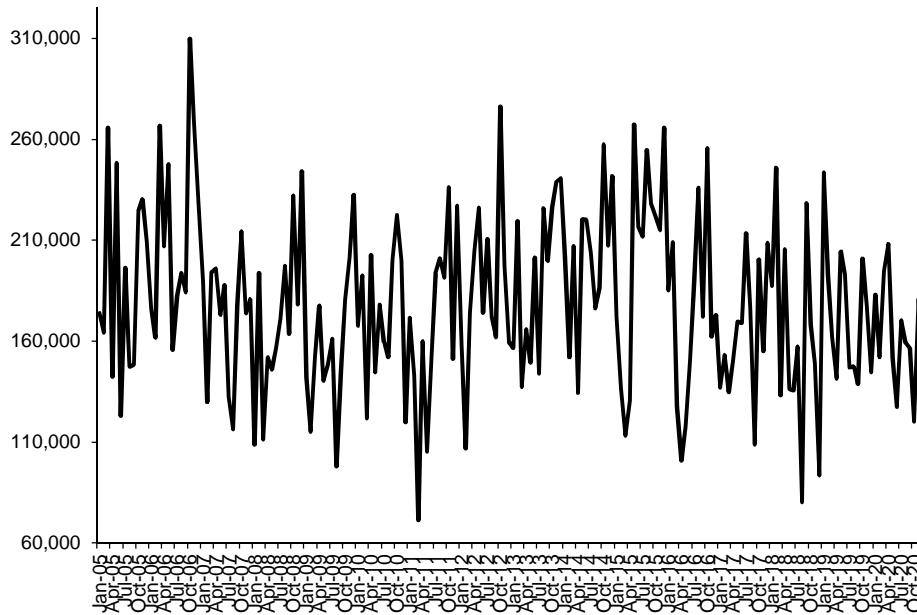
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES)



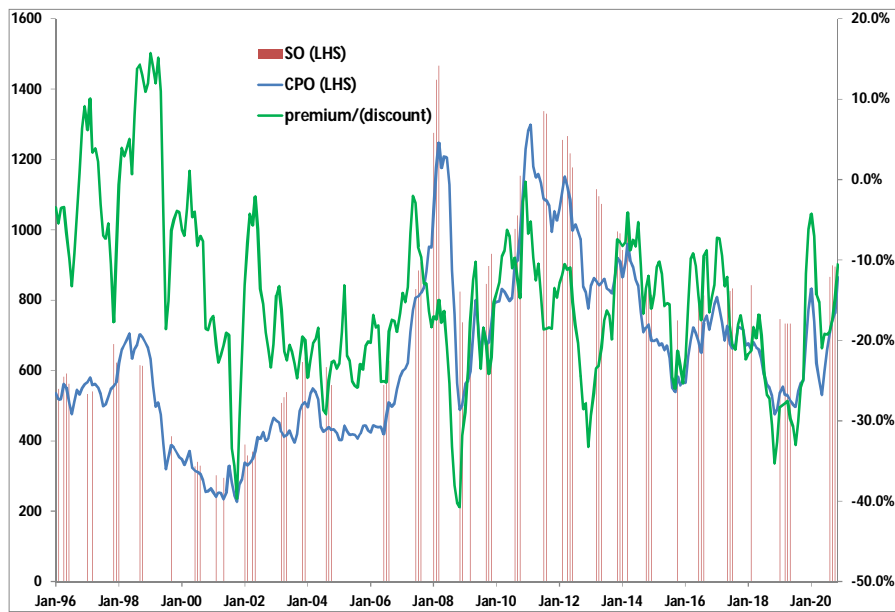
Source: MPOB

CHART 7 : EXPORTS TO EU (TONNES)



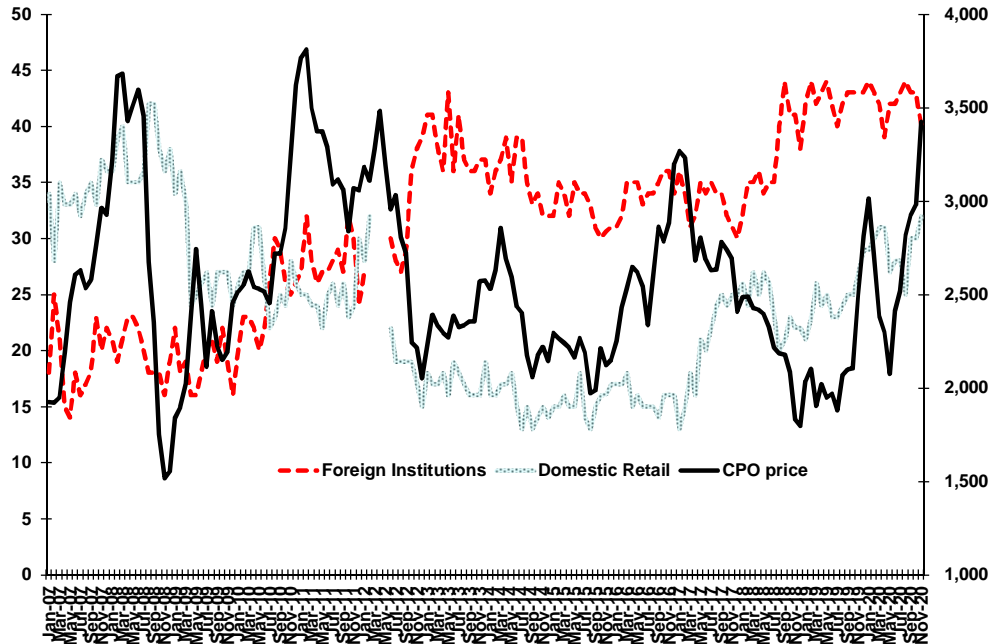
Source: MPOB

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



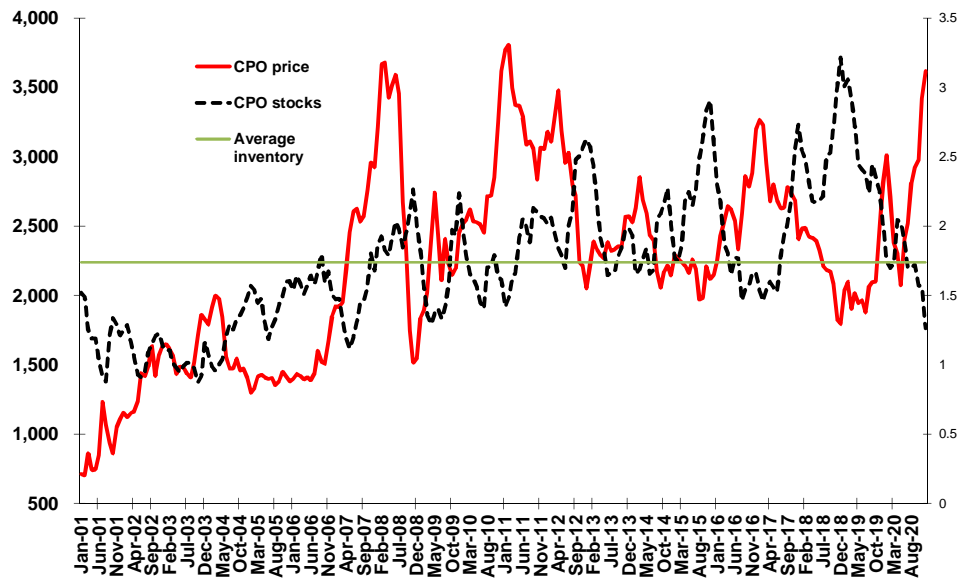
Source: MPOB

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



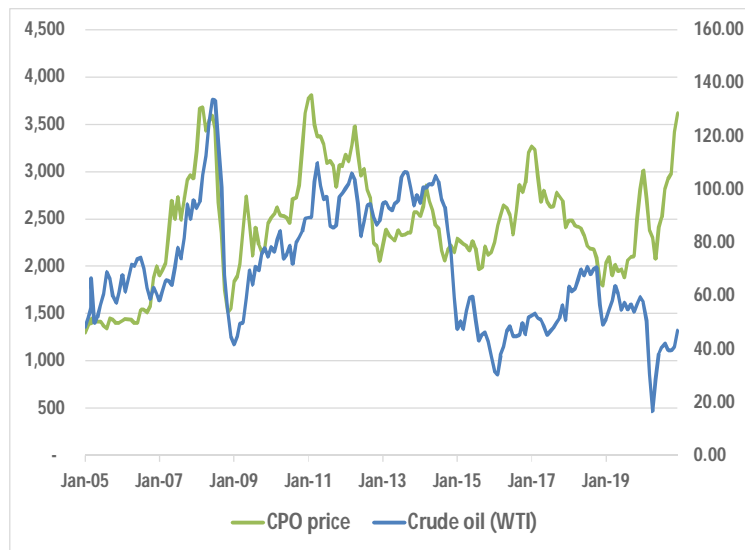
Source: Bursa Malaysia

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



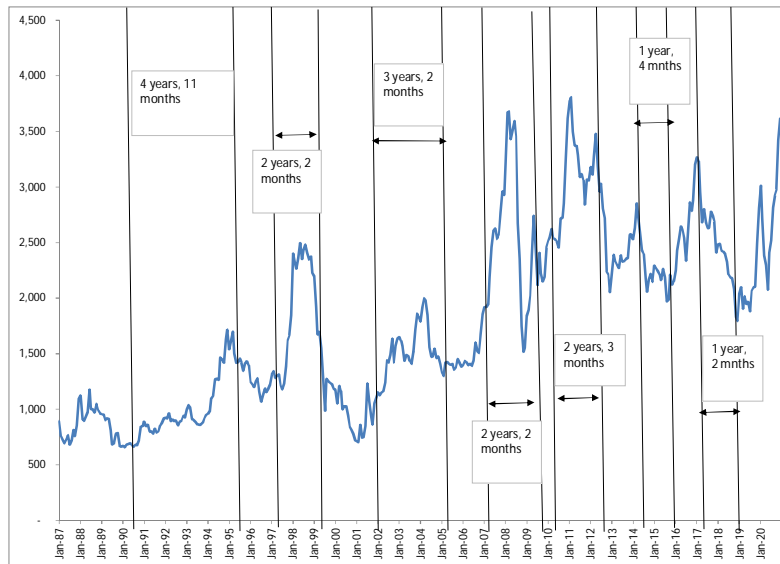
Source: MPOB

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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