



AmInvestment Bank

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# PLANTATION

Palm inventory rose 4.7% MoM in January

**NEUTRAL**

Gan Huey Ling, CFA

gan-huey-ling@ambankgroup.com

+603 2036 2305

Rationale for report: Sector update

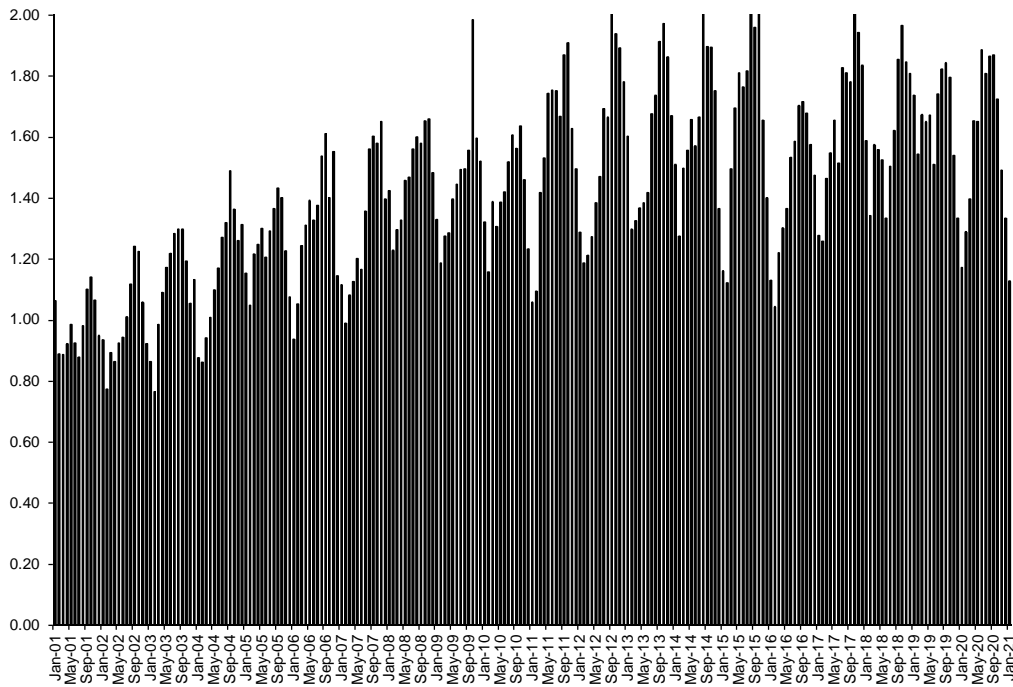
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for January 2021. Malaysia's palm inventory rose by 4.7% to 1.32mil tonnes as at end-January 2021 from 1.26mil tonnes as at end-December 2020. *Bloomberg* consensus had expected the country's palm stockpiles to be 1.21mil tonnes as at end-January 2021. The MoM increase in Malaysia's palm inventory in January 2021 was largely due to a 42.3% slump in exports. This offset a 15.5% MoM fall in industry palm production in January 2021.
- After a 24.7% MoM and 16.2% YoY surge in palm exports in December 2020, Malaysia's palm shipments dived in January 2021. The 42.3% MoM fall in Malaysia's palm exports in January 2021 was due mainly due to a 23.0% contraction in demand from China, 73.8% plunge in India's imports and 29.5% slide in shipments to the EU. Comparing January 2021 against January 2020, Malaysia's palm exports plummeted by 21.9% to 0.9mil tonnes.
- We believe that China has sufficient supply of vegetable oils presently. China's soybean oil production is expected to increase after the surge in the country's imports of soybean products. As for India, the country's inventory of edible oils at the pipelines and ports stood at 1.82mil tonnes as at 1 January 2021 vs. 1.43mil tonnes as at 1 December 2020.
- Palm imports shrank by 38.8% MoM to 195,457 tonnes in January 2021. However, we believe that Malaysia's palm imports would increase going forward due to the cheaper price of Indonesia's CPO. We believe that the price difference between CPO in Malaysia and Indonesia is more than RM1,000/tonne currently as Indonesia has raised the CPO export levy to US\$255/tonne (vs. US\$225/tonne previously) and CPO export tax to US\$93/tonne (vs. US\$74/tonne previously) for the month of February 2021. Malaysia's palm imports amounted to 113,717 tonnes in January 2020 and 319,531 tonnes in December 2020.
- Domestic disappearance of palm oil inched up by 2.0% MoM to 315,426 tonnes in January 2021. We attribute the rise in domestic disappearance of palm oil in January 2021 to a pick-up in biodiesel demand and higher purchases of cooking oil products due to the festive season in February.
- Malaysia's CPO production fell by 15.5% MoM and 3.8% YoY to 1.13mil tonnes in January 2021. We think that the MoM slump in CPO output in January 2021 was due to floods in certain areas in Peninsular Malaysia and Sabah. It also appears that the lagged impact of 2019's drought may be dissipating as on a yearly basis, the decline in Malaysia's CPO production was only 3.8%. CPO production in Sabah fell by 19.4% MoM in January 2021 while in Peninsular Malaysia, CPO output slid by 16.9%. CPO production in Sarawak shrank by 8.4% MoM to 280,769 tonnes in January 2021. *Oil World* has forecast Malaysia's CPO output to be 19.7mil tonnes in 2021F vs. 19.1mil tonnes in 2020.
- We are NEUTRAL on the plantation sector. At CPO prices of more than RM3,000/tonne, we believe that there is more downside 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	4.33	15.0	15.9	28.9	27.2	4.30	-0.7%	8.5	2.0%	Hold
KLK	23.10	91.9	96.3	25.1	24.0	24.80	7.4%	55.0	2.4%	Hold
SD Plantation	4.97	11.5	13.9	43.2	35.8	5.55	11.7%	8.0	1.6%	Hold
Gent Plant	9.53	27.3	37.0	34.9	25.8	10.00	4.9%	14.0	1.5%	Hold
UM Plantations	1.78	7.0	7.6	25.4	23.4	1.90	6.7%	3.0	1.7%	Hold
TSH Resources	1.050	6.0	6.2	17.5	16.9	1.35	28.6%	1.5	1.4%	Buy
FGV Holdings	1.31	3.4	4.1	38.5	32.0	1.26	-3.8%	2.5	1.9%	Sell

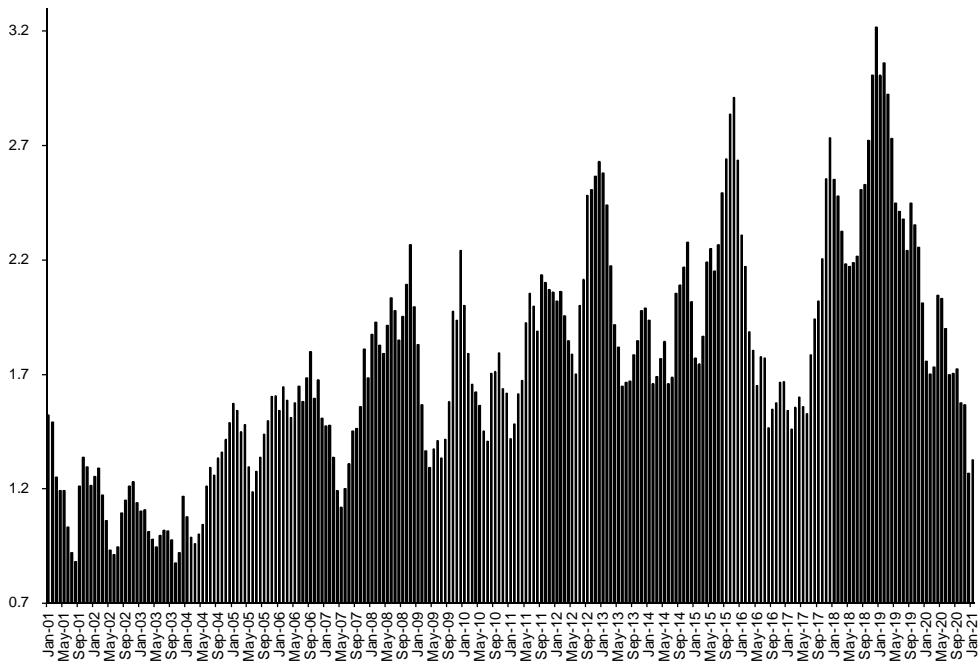
Source: AmInvestment Bank

CHART 1 : CPO PRODUCTION (MILLION TONNES)



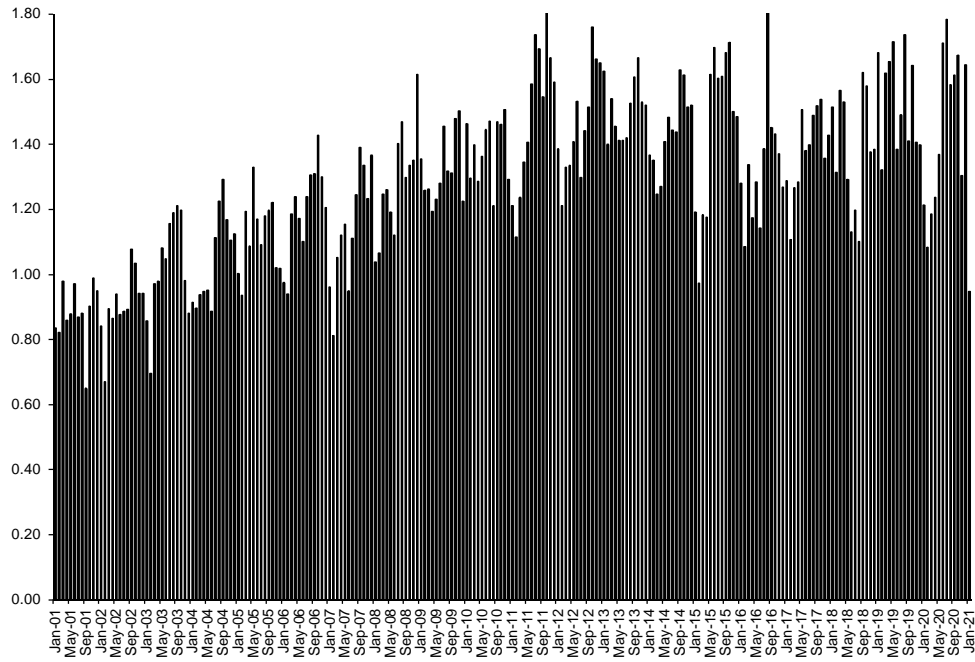
Source: MPOB

CHART 2 : CPO INVENTORY (MILLION TONNES)



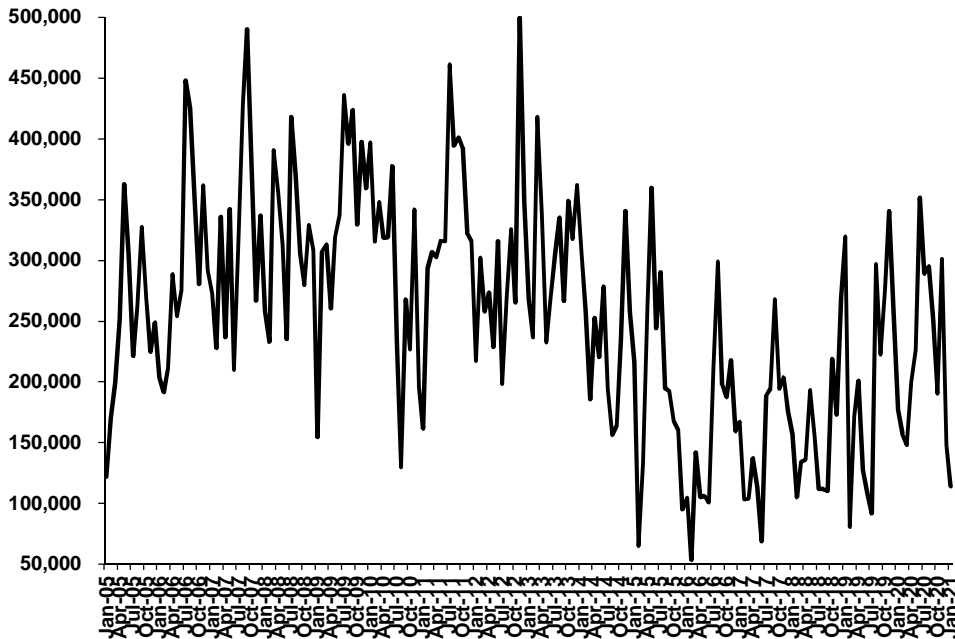
Source: MPOB

CHART 3 : CPO EXPORTS (MILLION TONNES)



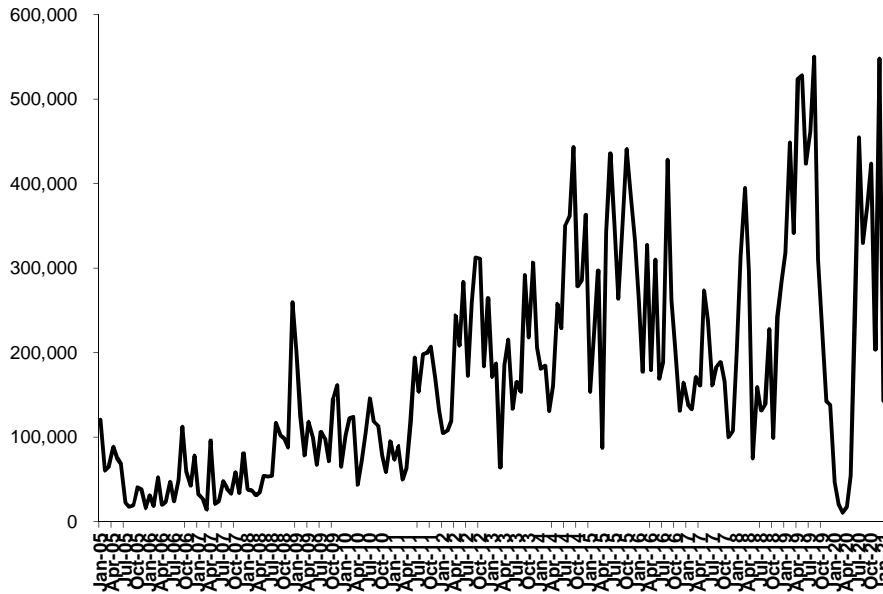
Source: MPOB

CHART 4 : EXPORTS TO CHINA (TONNES)



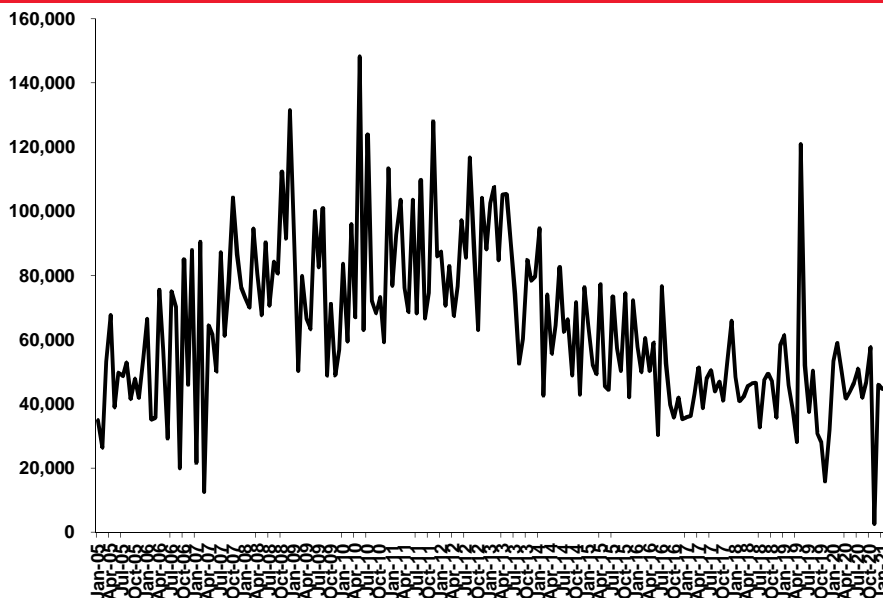
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES)



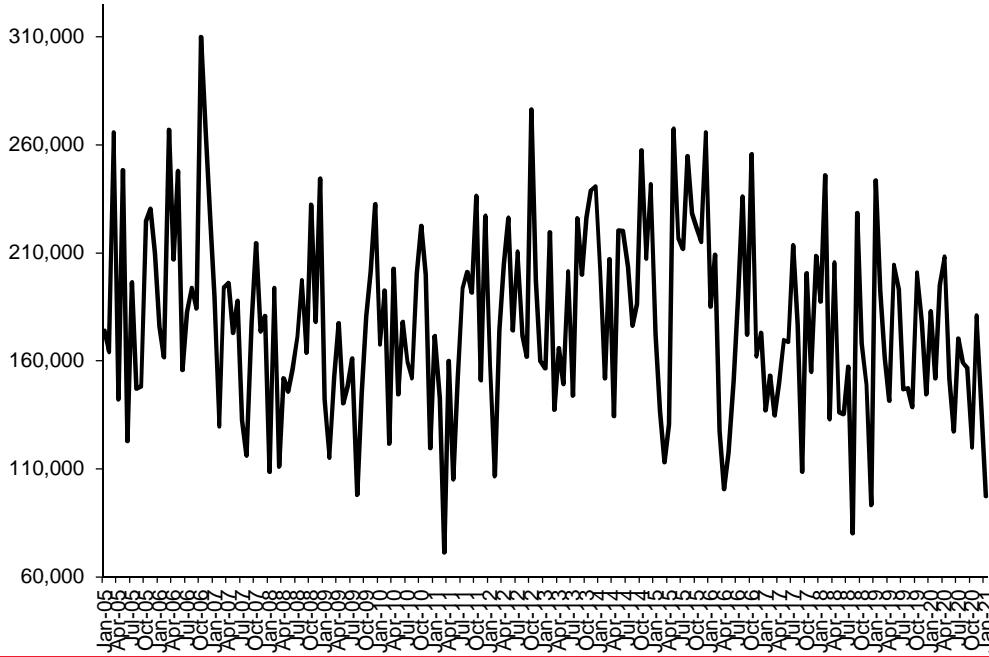
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES)



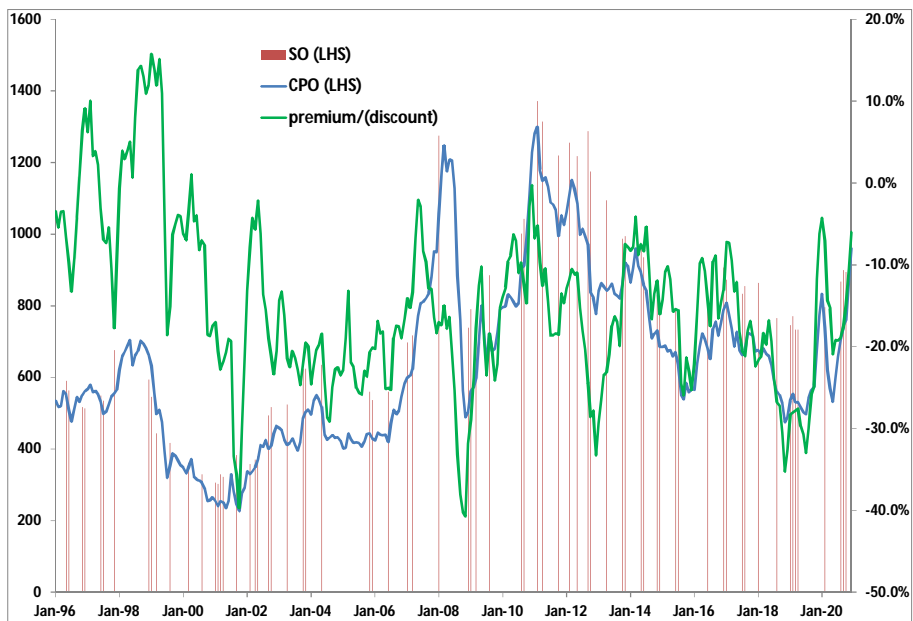
Source: MPOB

CHART 7 : EXPORTS TO EU (TONNES)



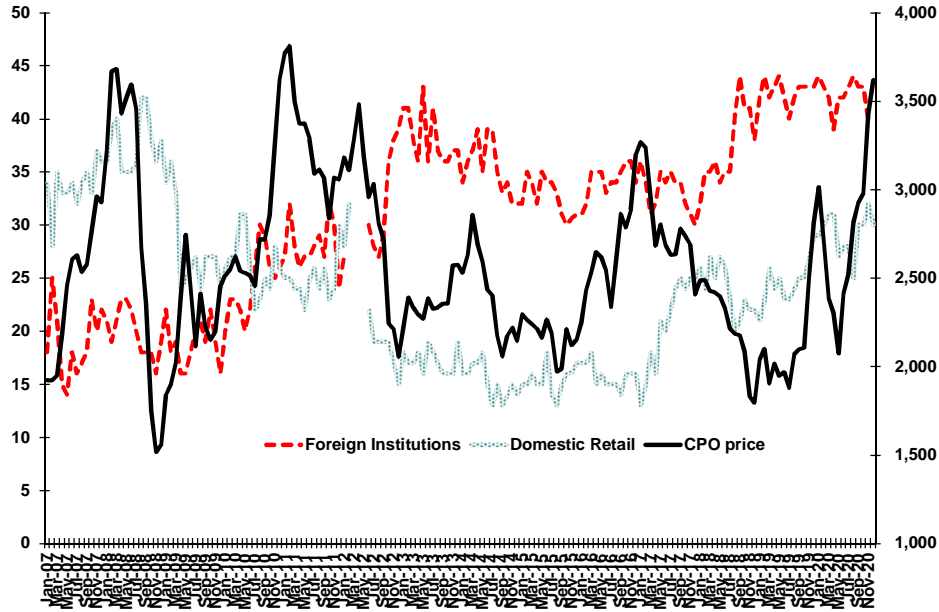
Source: MPOB

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



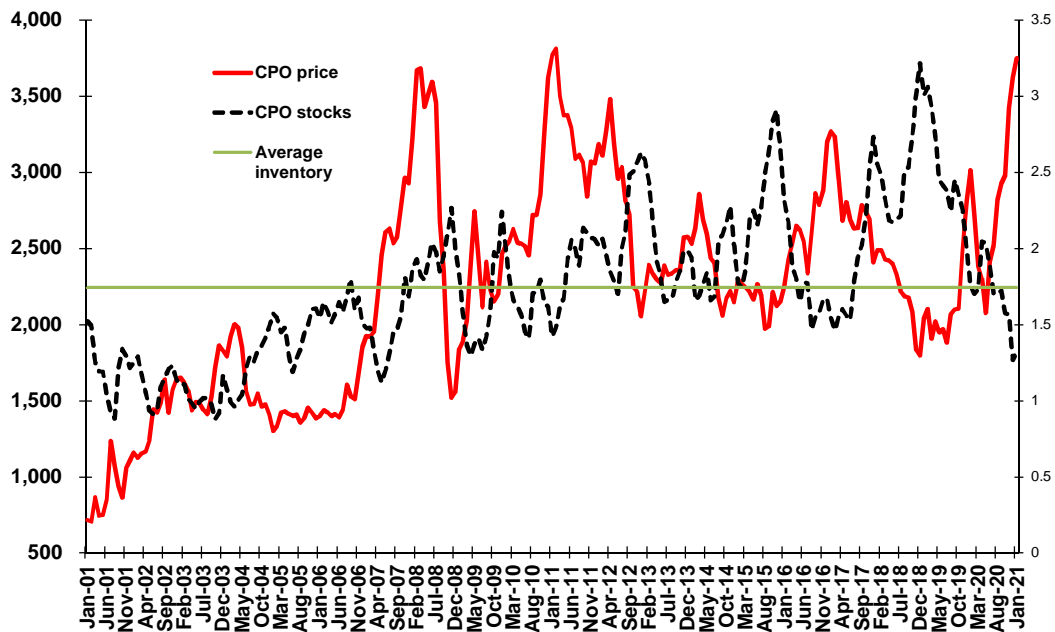
Source: MPOB

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



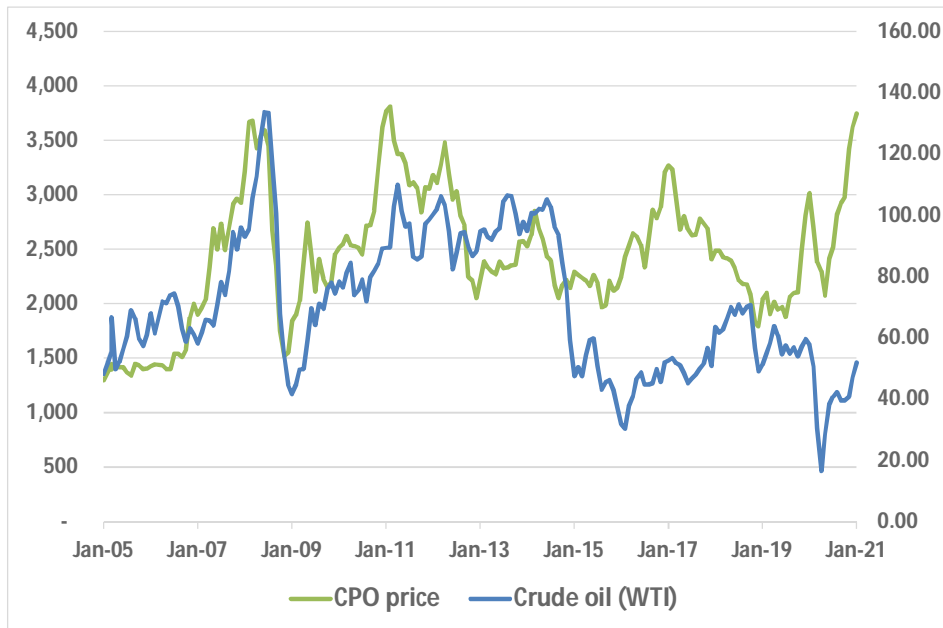
Source: Bursa Malaysia

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



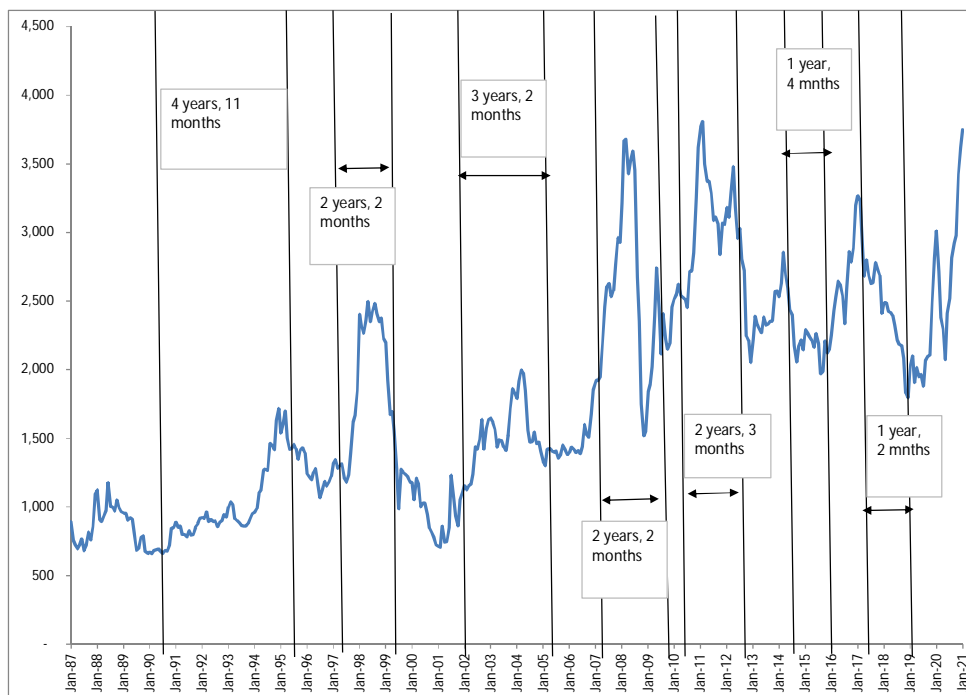
Source: MPOB

**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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