



AmInvestment Bank

13 Sep 2021

PLANTATION

Palm inventory up 25.3% MoM in August

NEUTRAL

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Rationale for report: Sector update

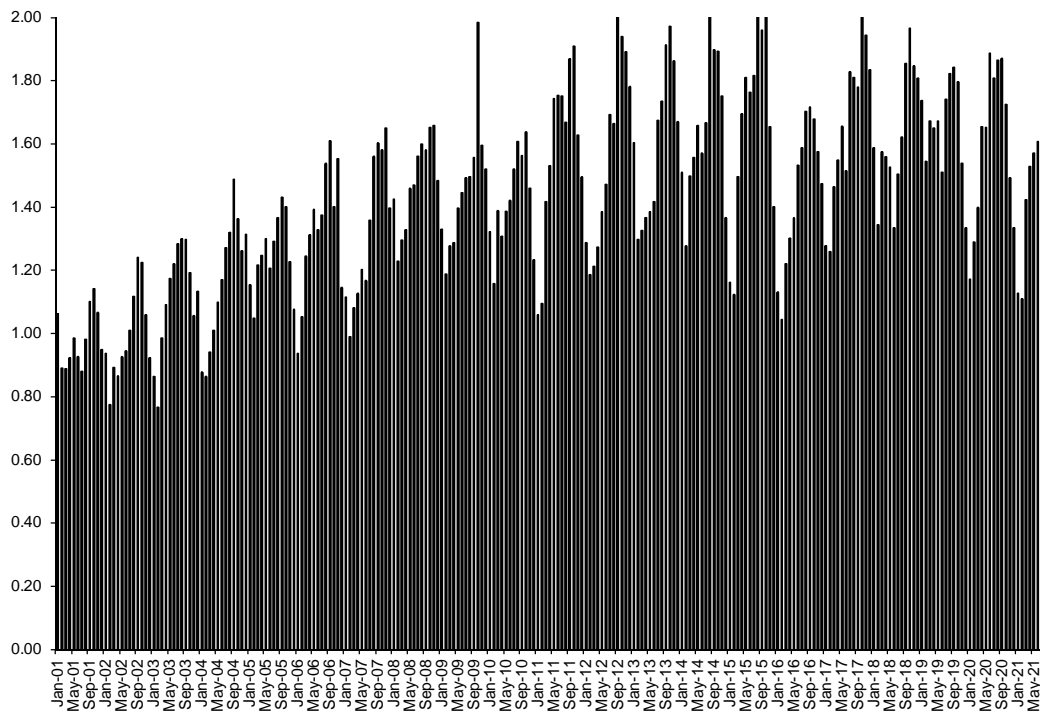
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for August 2021. Palm stockpiles in Malaysia surged by 25.3% to 1.87mil tonnes as at end-August from 1.50mil tonnes as at end-July. The palm inventory of 1.87mil tonnes in August exceeded *Bloomberg* consensus estimates of 1.74mil tonnes. The 25.3% MoM increase in Malaysia's palm inventory in August can be attributed to an 11.8% rebound in production and 17.1% fall in exports. Recall that in July, Malaysia's palm production fell by 5.2% MoM to 1.52mil tonnes.
- Also, imports of palm oil increased by 63.0% MoM to 115,084 tonnes in August as downstream companies in Malaysia bought more palm products from Indonesia ahead of the hike in the country's CPO export tax in September. Indonesia's CPO export tax was US\$166/tonne in September vs. US\$93/tonne in August. CPO export levy was unchanged at US\$175/tonne in September. We believe that currently, the price difference between CPO in Malaysia and Indonesia is still about RM1,000/tonne, at least. Comparing 8M2021 against 8M2020, Malaysia's palm imports climbed by 64.7% to 1.0mil tonnes.
- Domestic disappearance of palm oil slid by 10.5% MoM to 276,419 tonnes in August as economic restrictions in the Klang Valley only started to ease at the end of the month. Domestic disappearance of palm oil edged down by 4.7% YoY to 2.4mil tonnes in 8M2021.
- The 11.8% MoM expansion in palm production in August was driven mainly by a 14.3% increase in Sarawak and 12.3% recovery in Sabah. Also, CPO output in Peninsular Malaysia rose by 10.7% MoM to 949,054 tonnes in August. Comparing 8M2021 against 8M2020 however, Malaysia's CPO production declined by 8.9% to 11.6mil tonnes. *Oil World* has forecast CPO production in Malaysia to be 18.2mil tonnes in 2021E vs. 19.1mil tonnes in 2020. In Indonesia however, industry experts are expecting CPO output to increase. *Oil World* estimates Indonesia's CPO production to expand by 8% by 2021E while Indonesia Palm Oil Association anticipates a 3% rise.
- CPO exports contracted by 17.1% MoM to 1.2mil tonnes in August dragged by a 17.4% fall in demand from China and a 51.8% plunge in shipments to the Netherlands. Malaysia's palm exports shrank by 13.7% YoY to 9.6mil tonnes in 8M2021. The 13.7% YoY decline in exports in 8M2021 was mainly due to a drop in demand from China and the EU. On a positive note, Malaysia's palm exports to India climbed by 79.7% YoY to 2.1mil tonnes in 9M2021. Going forward, we believe that China's palm demand would taper off as the country enters the winter season. However, India's palm demand may remain robust as the country has reduced the import duty on crude palm oil to 24.75% from 30.25%. The import duty on refined palm olein has been revised to 35.75% from 41.25%.
- We are NEUTRAL on the plantation sector due to ESG concerns. Also, there is risk that CPO prices would weaken due to softening soybean oil prices and rising palm production. Our 2021E CPO price assumption is RM3,500/tonne for most of the plantation companies in our coverage. We have a BUY on Sime Darby Plantation (SDP) with a fair value of RM4.88/share. We like SDP for its high leverage to CPO prices, resilient downstream earnings and healthy balance sheet.

TABLE 1 : VALUATION MATRIX

	Share price	Basic EPS (sen)		Basic PE (x)		Fair values	Upside	FY21E/FY22F	FY21E/FY22F	Rec
	(RM)	FY21E/FY22F	FY22F/FY23F	FY21E/FY22F	FY22F/FY23F	(RM)		DPS (sen)	Div yield	
IOI Corp	3.98	19.0	17.7	20.9	22.5	4.20	5.5%	11.0	2.8%	Hold
KLK	21.20	130.8	101.0	16.2	21.0	22.22	4.8%	55.0	2.6%	Hold
SD Plantation	3.91	27.7	22.2	14.1	17.6	4.88	24.8%	16.0	4.1%	Buy
Gent Plant	7.43	37.9	37.9	19.6	19.6	8.30	11.7%	22.0	3.0%	Hold
IJM Plantations	3.09	20.2	15.7	15.3	19.7	3.10	0.3%	12.0	3.9%	Acc GO
TSH Resources	1.16	9.8	6.7	11.8	17.3	1.20	3.4%	2.0	1.7%	Hold
FGV Holdings	1.39	4.8	5.6	29.0	24.8	1.25	-10.1%	3.0	2.2%	Sell

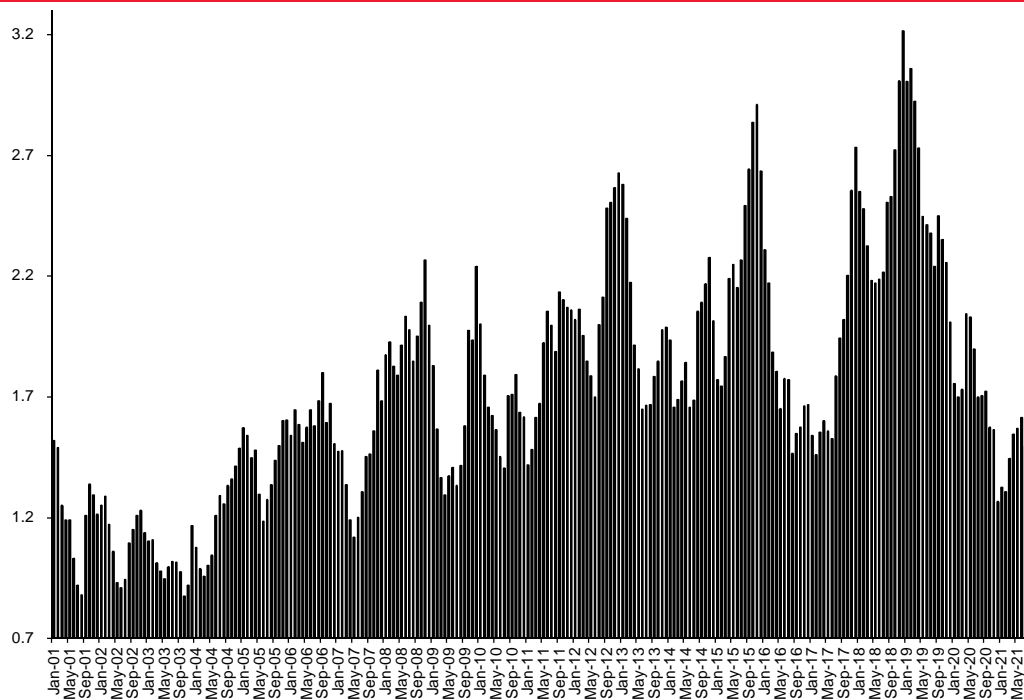
Source: AmInvestment Bank. Share prices as at 9 Sept 2021

CHART 1 : CPO PRODUCTION (MILLION TONNES)



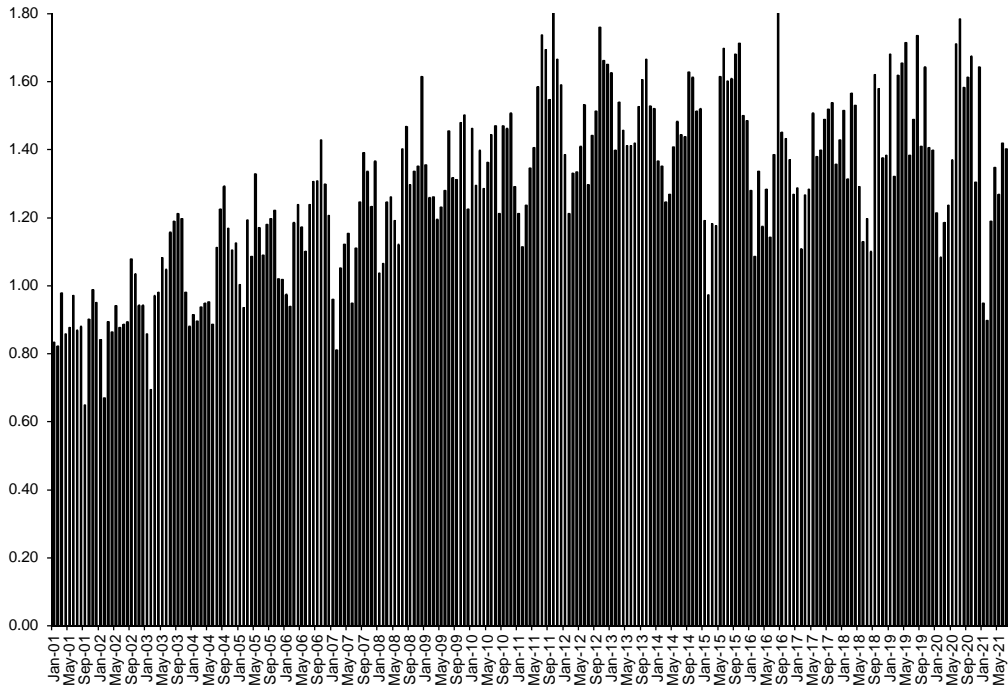
Source: MPOB

CHART 2 : CPO INVENTORY (MILLION TONNES)



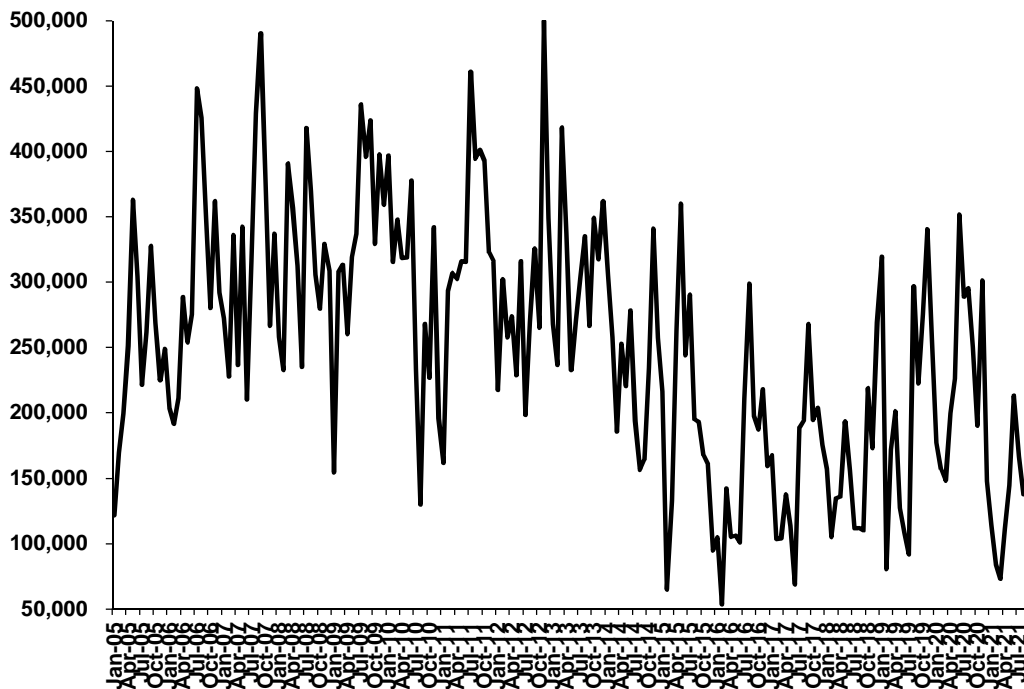
Source: MPOB

CHART 3 : CPO EXPORTS (MILLION TONNES)



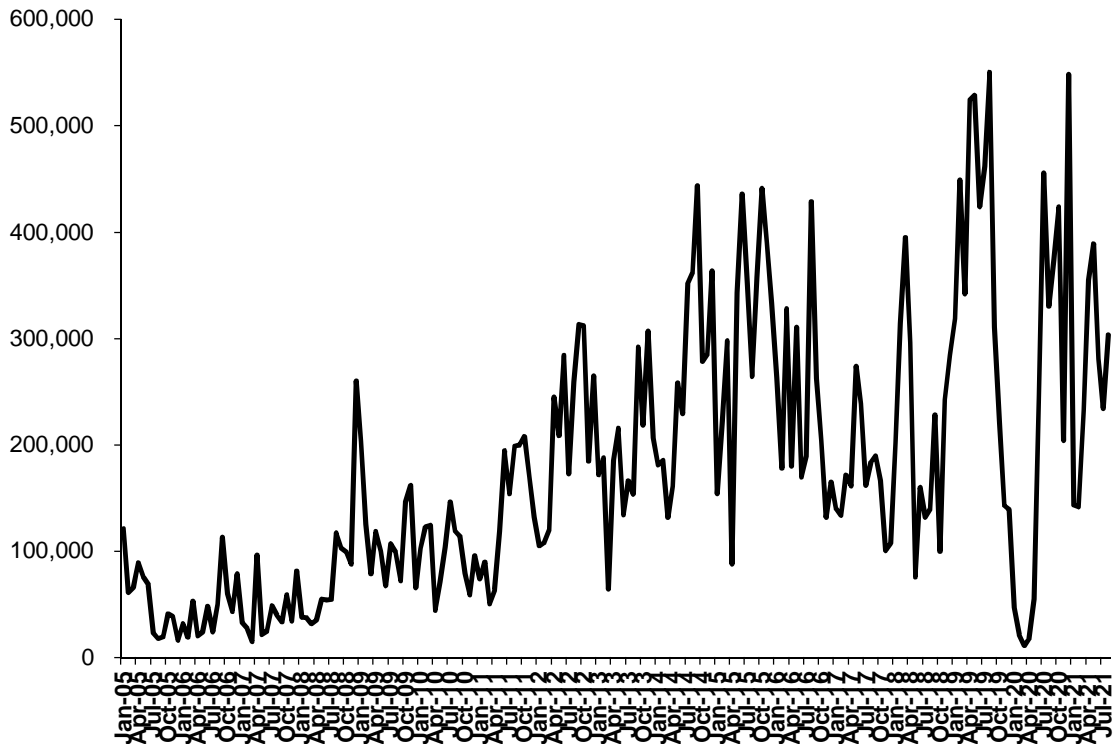
Source: MPOB

CHART 4 : EXPORTS TO CHINA (TONNES)



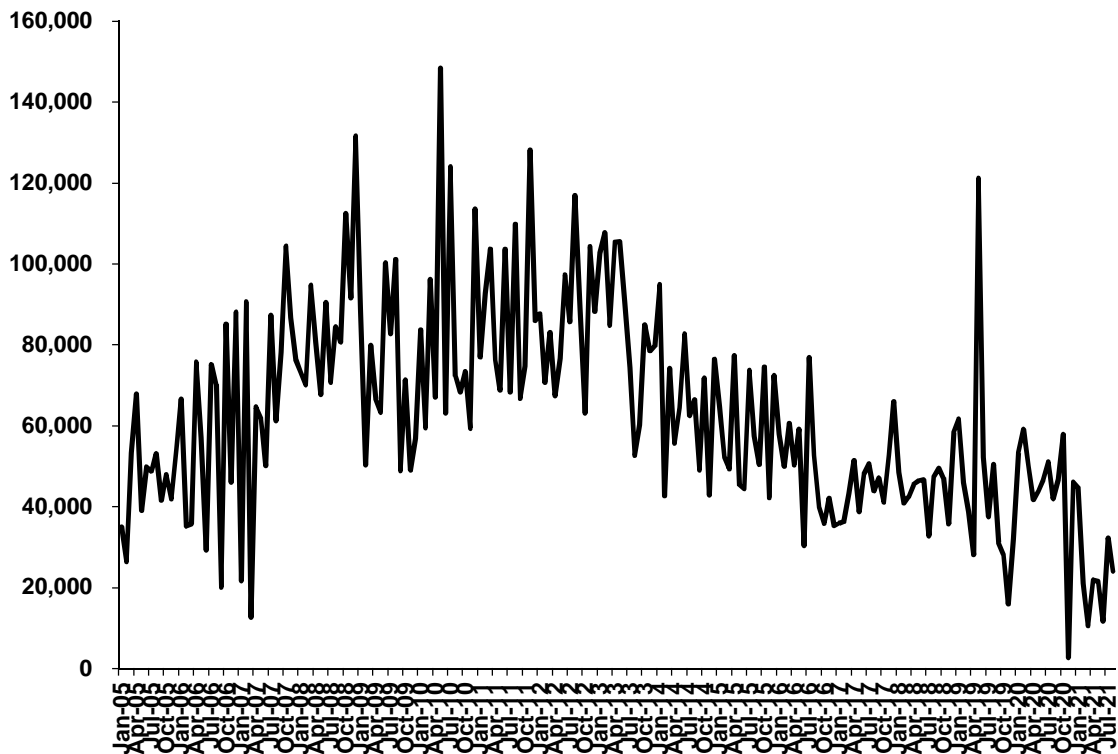
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES)



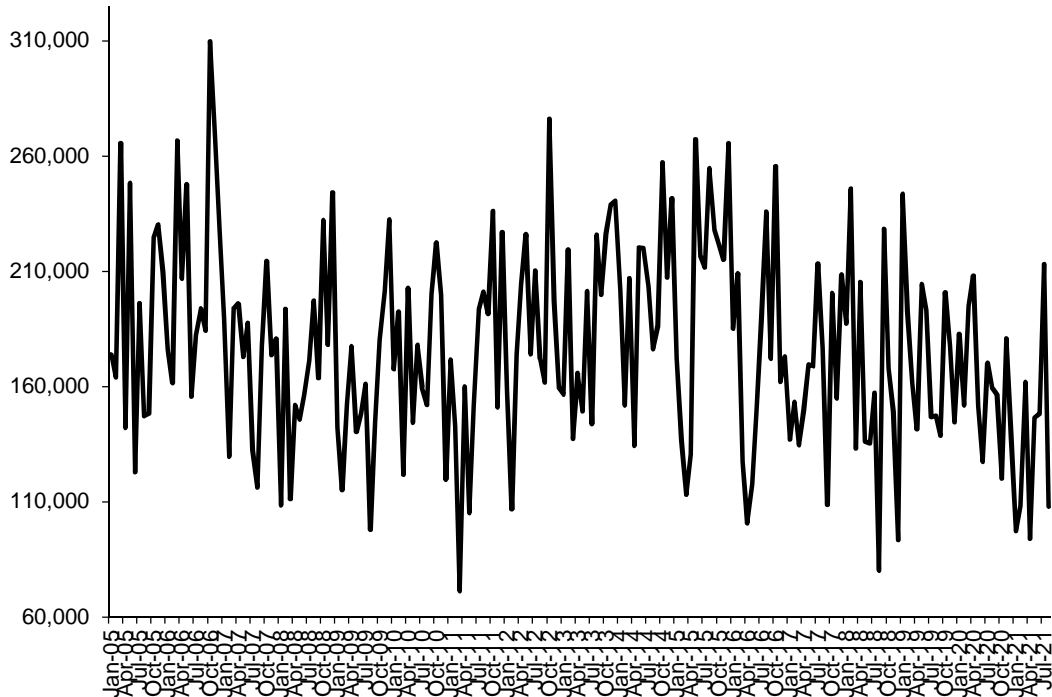
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES)



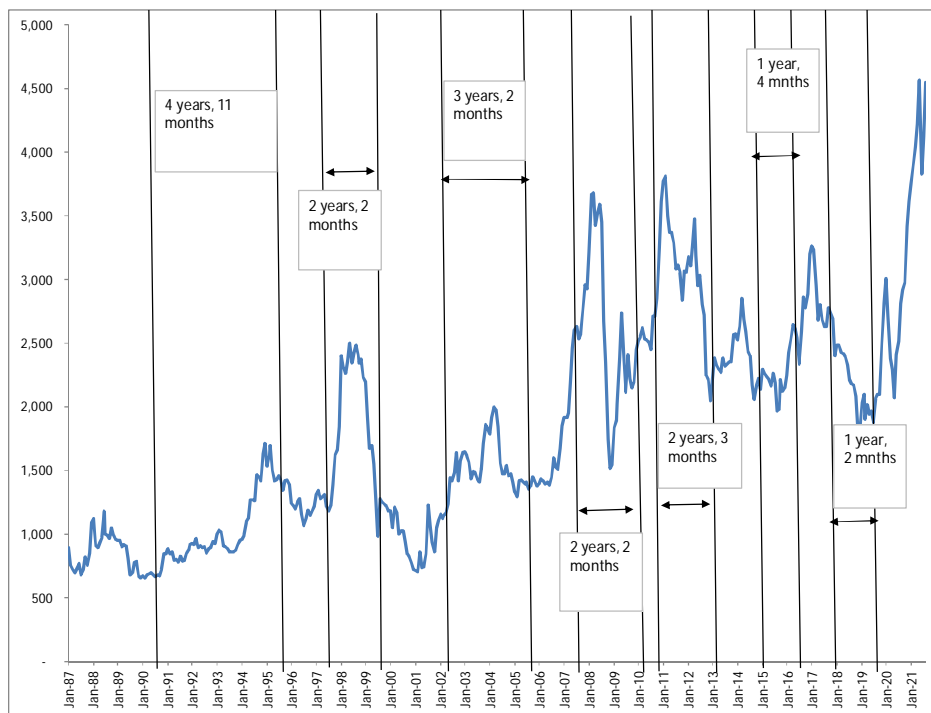
Source: MPOB

CHART 7 : EXPORTS TO EU (TONNES)



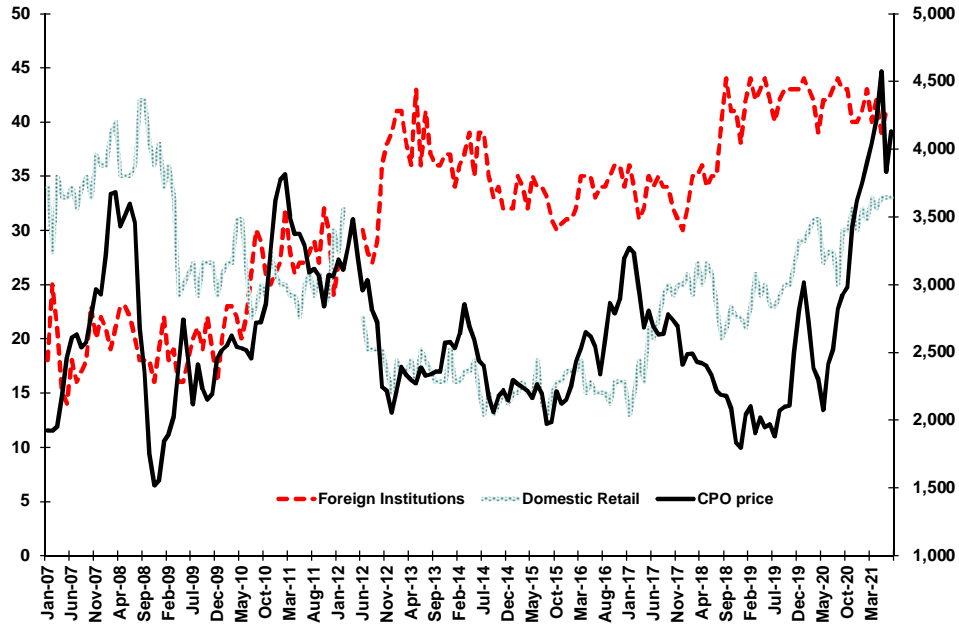
Source: MPOB

CHART 8 : HISTORICAL CPO PRICE CYCLE (RM/TONNE)



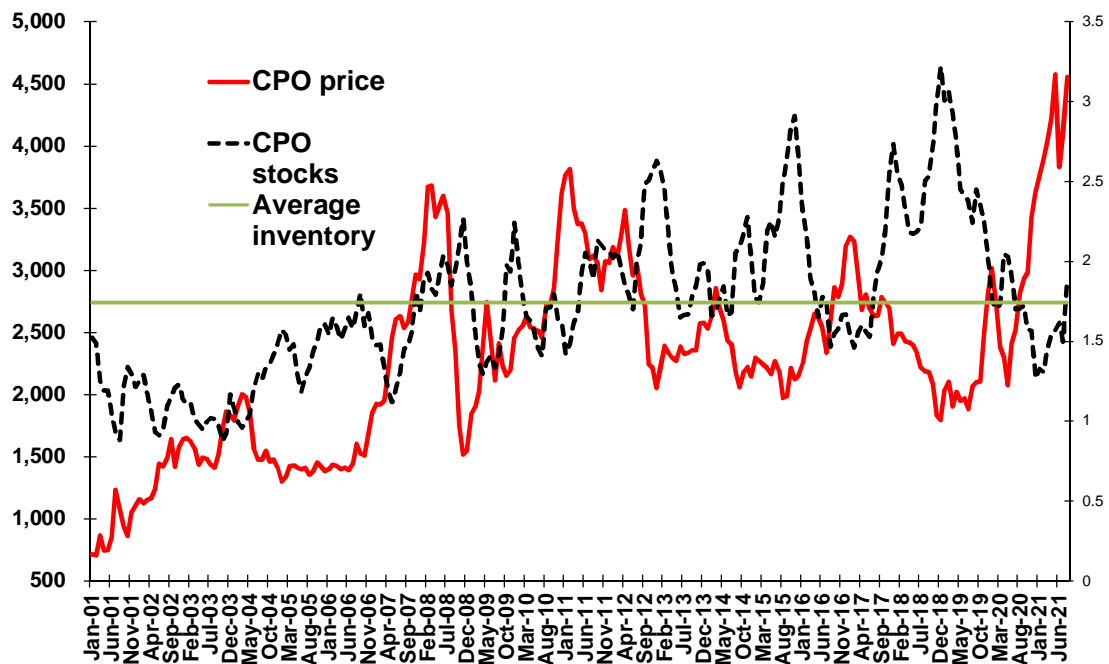
Source: MPOB

CHART 9 : MARKET DEMOGRAPHICS OF CPO FUTURES (%) VS. CPO PRICE (RM/TONNE) (UP TO JULY 2021)



Source: Bursa Malaysia

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



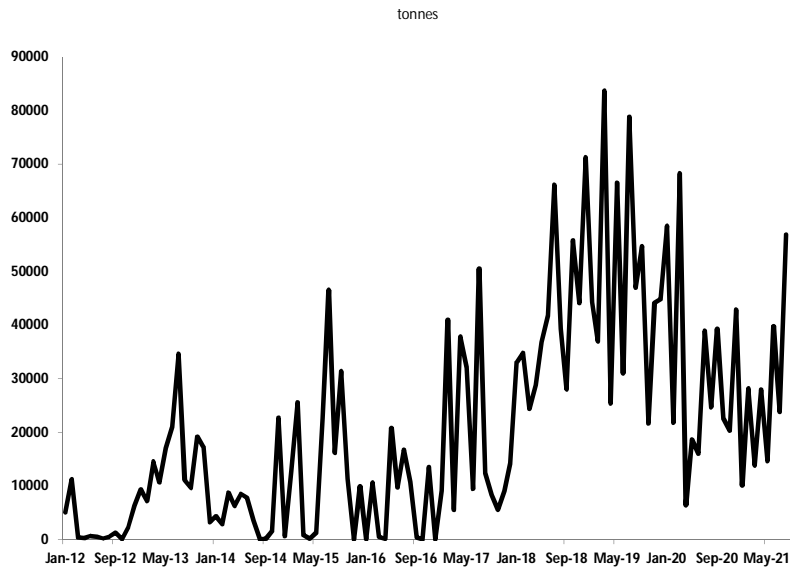
Source: MPOB

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



Source: MPOB, Bloomberg

CHART 12 : BIODIESEL EXPORTS (TONNES)



Source: MPOB

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