



11 Sep 2020

PLANTATION

*Inventory flat MoM at 1.7mil tonnes in August***NEUTRAL**

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Rationale for report: Sector update

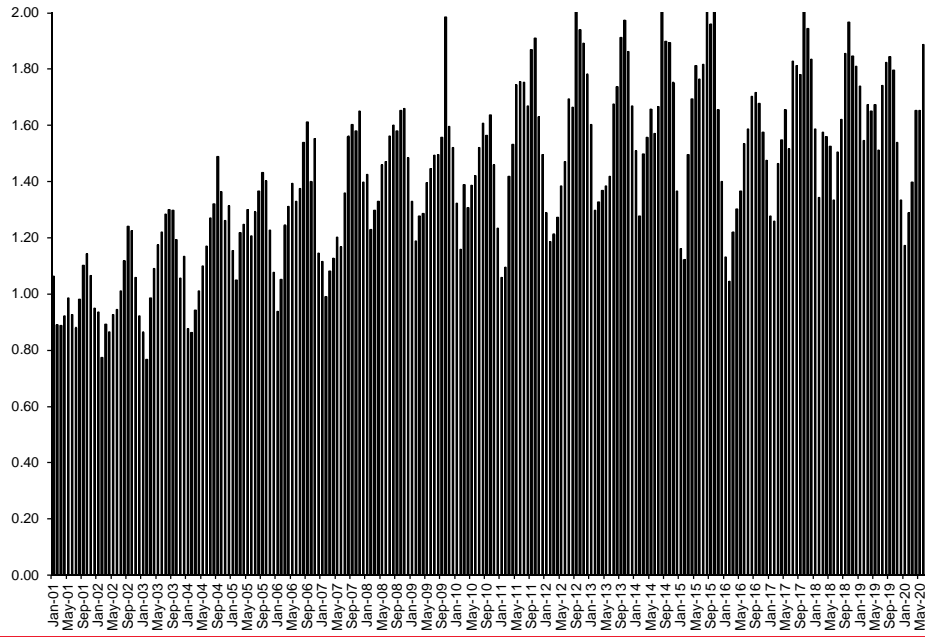
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for August 2020. Malaysia's palm inventory was flat MoM at 1.70mil tonnes as at end-August after falling in the previous three months. The palm inventory of 1.70mil tonnes in August was below *Bloomberg* consensus estimates of 1.78mil tonnes. We attribute the discrepancy between the actual inventory number and consensus estimates to lower-than-expected palm imports and higher-than-estimated domestic disappearance or internal consumption. Palm imports by the downstream companies in Malaysia plunged by 49.7% MoM to 45,588 tonnes in August while domestic disappearance rose by 3.4% to 325,868 tonnes.
- Palm inventory was flat MoM in August as even though palm exports fell by 11.3%, industry palm production only inched up by 3.1%. We reckon that palm stockpiles would rise in the coming months on the back of seasonally higher production. The highest level of palm production is expected to take place either in October or November this year. However, if CPO output continues to be lacklustre in September, there is risk that peak production may be delayed to December 2020 or January 2021.
- Malaysia's CPO production slid by 4.7% YoY to 12.7mil tonnes in 8M2020. On a monthly basis, the 3.1% uptick in CPO output in August was led by Sarawak, which recorded an 8.4% expansion in production. This compensated for a meagre 1.0% rise in CPO production in Peninsular Malaysia and 3.2% increase in CPO output in Sabah.
- FFB yields in Malaysia were weak in 8M2020. Average FFB yield in Malaysia was 11.17 tonnes/ha in 8M2020 compared with 11.48 tonnes/ha in 8M2019. Average FFB yield in Peninsular Malaysia eased by 3.9% to 11.93 tonnes/ha in 8M2020 from 12.41 tonnes/ha in 8M2019. Average FFB yield in Sabah slid by 5.4% to 11.02 tonnes/ha in 8M2020 from 11.65 tonnes/ha in 8M2019. On the other hand in Sarawak, average FFB yield edged up by 2.9% to 10.15 tonnes/ha in 8M2020 from 9.86 tonnes/ha in 8M2019.
- The monthly decline of 11.3% in palm exports in August can be attributed mainly to a 27.6% fall in demand from India and 7.5% decline in shipments to the EU. Going forward, we believe that India's palm demand may soften as the country is close towards completing the replenishment of its edible oils inventory. Also, China is entering the winter season and this may result in weaker palm demand. Palm oil freezes when the temperature is too cold. Comparing 8M2020 against 8M2019, India's imports of Malaysia's palm products dived by 67.3% due to lockdowns in 2Q2020 while China's palm imports rose by 32.0%.
- Domestic disappearance of Malaysia's palm products edged up by 0.4% to 2.48mil tonnes in 8M2020 from 2.47mil tonnes in 8M2019. Biodiesel activities are picking up after the relaxation of the movement control order in May 2020. The B20 biodiesel policy is expected to be implemented in Sarawak in September 2020 while Sabah would be implementing B20 in January 2021. B20 would be implemented in Peninsular Malaysia in June 2021.
- We are NEUTRAL on the plantation sector. Our average CPO price assumption is RM2,300/tonne for 2020E. Average MPOB spot price was RM2,529/tonne in 8M2020 compared with RM1,990/tonne in 8M2019.

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	4.48	15.9	15.7	28.2	28.5	4.30	-4.0%	8.5	1.9%	Hold
KLK	22.90	69.5	90.3	32.9	25.4	24.40	6.6%	50.0	2.2%	Hold
SD Plantation	5.06	7.6	13.8	66.6	36.7	5.50	8.7%	6.0	1.2%	Hold
TH Plantations	0.400	2.6	4.0	15.4	10.0	0.33	-17.5%	2.0	5.0%	Hold
Gent Plant	9.77	27.2	36.0	35.9	27.1	9.72	-0.5%	14.0	1.4%	Hold
IJM Plantations	1.68	6.2	7.2	27.1	23.3	1.70	1.2%	3.0	1.8%	Hold
TSH Resources	0.925	4.7	4.9	19.7	18.9	1.21	30.8%	1.5	1.6%	Buy
FGV Holdings	1.14	-1.4	2.1	-81.4	54.3	1.14	0.0%	2.5	2.2%	Hold

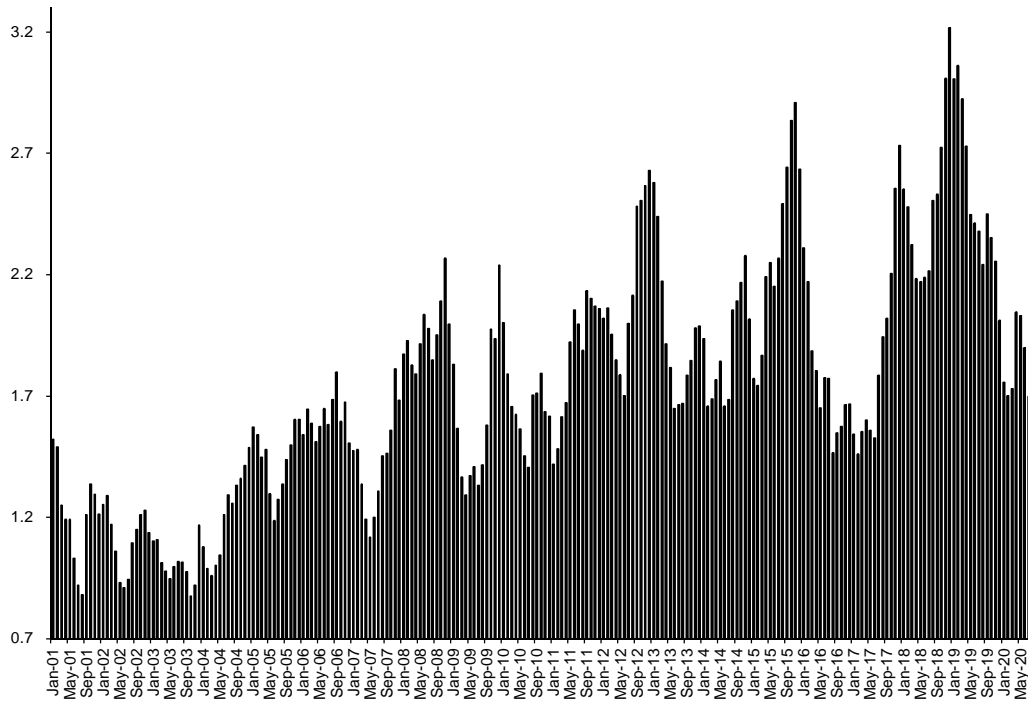
Source: AmInvestment Bank

CHART 1 : CPO PRODUCTION (MILLION TONNES)



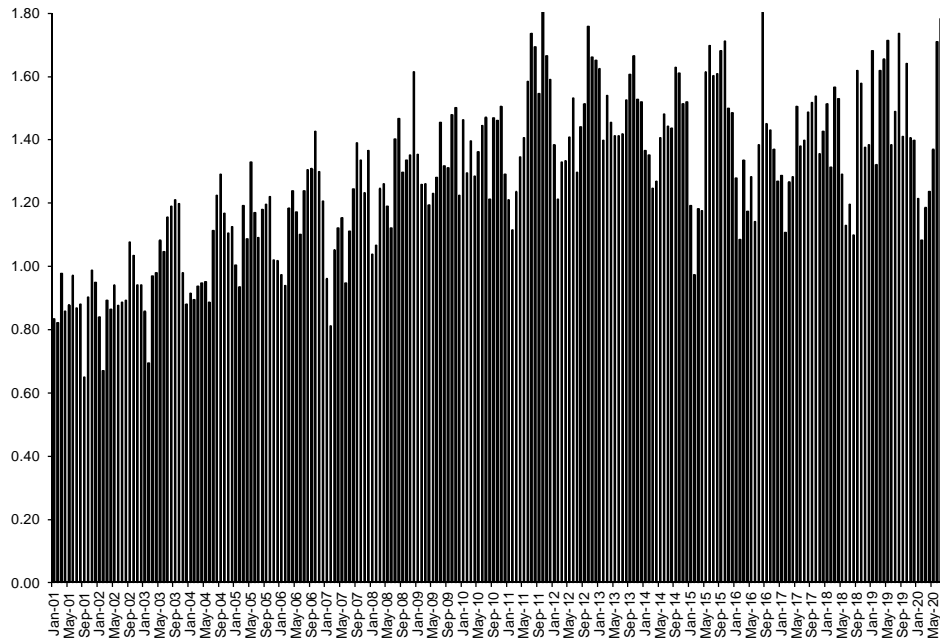
Source: MPOB

CHART 2 : CPO INVENTORY (MILLION TONNES)



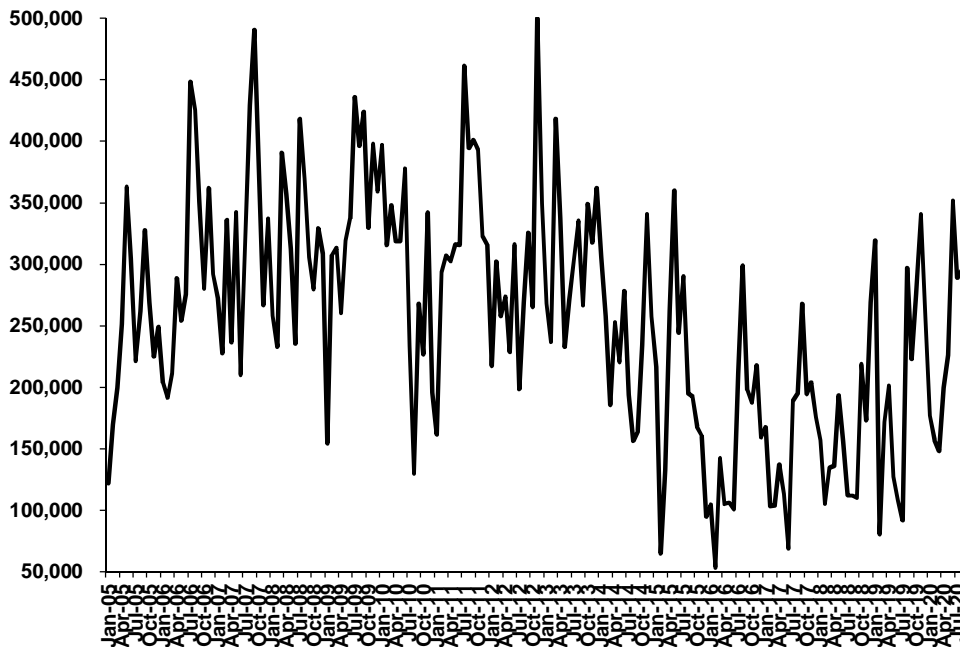
Source: MPOB

CHART 3 : CPO EXPORTS (MILLION TONNES)



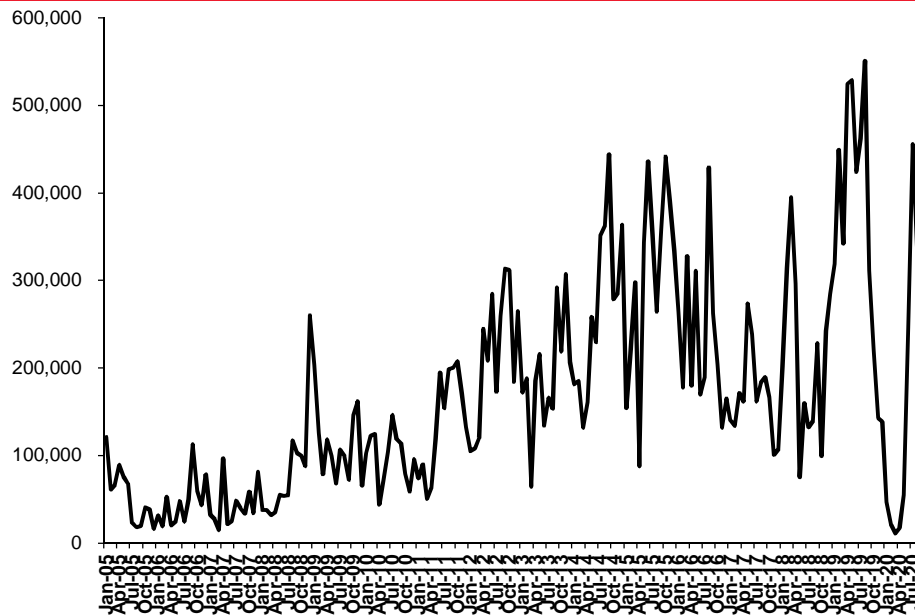
Source: MPOB

CHART 4 : EXPORTS TO CHINA (TONNES)



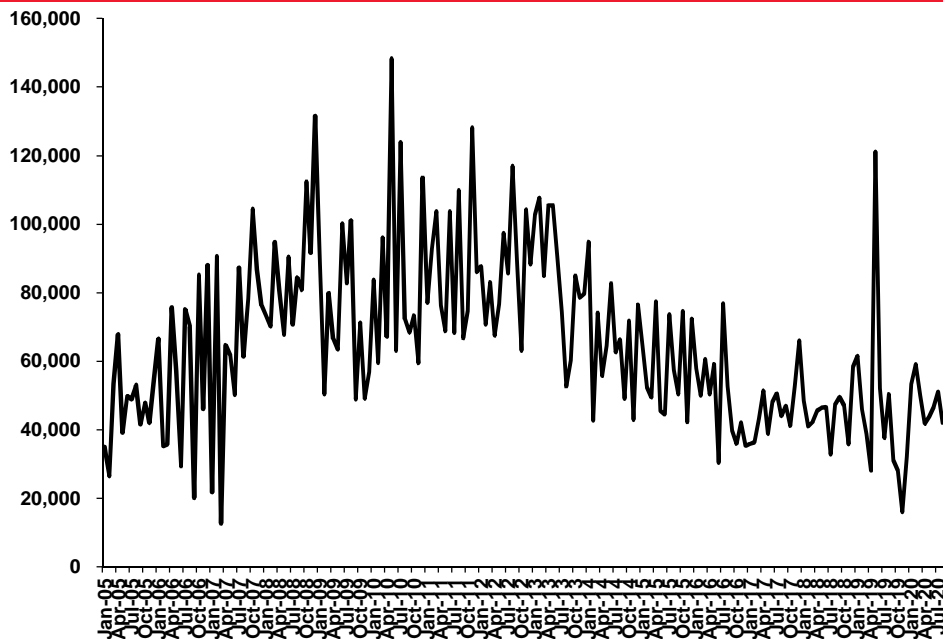
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES)



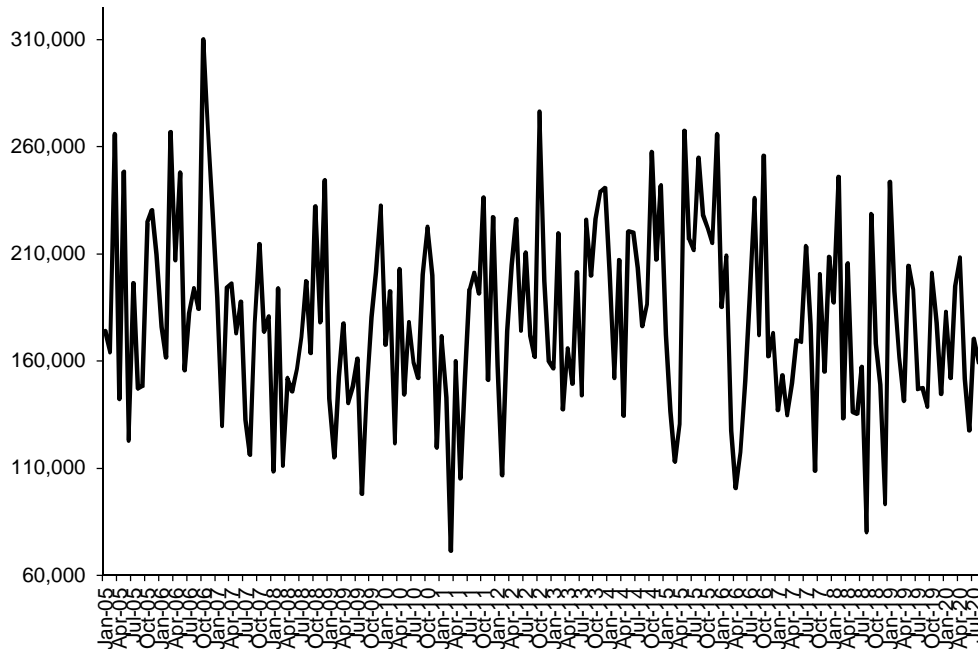
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES)



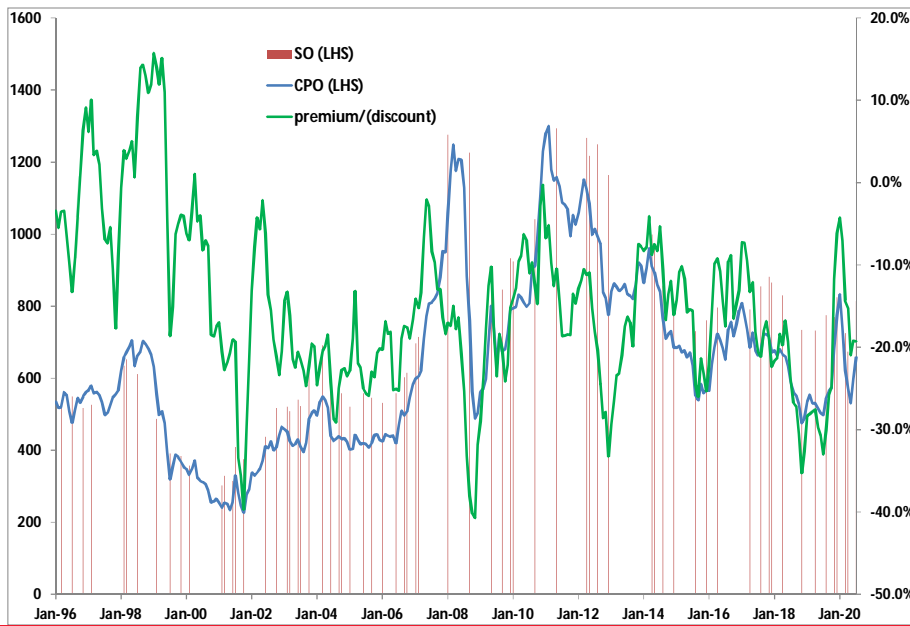
Source: MPOB

CHART 7 : EXPORTS TO EU (TONNES)



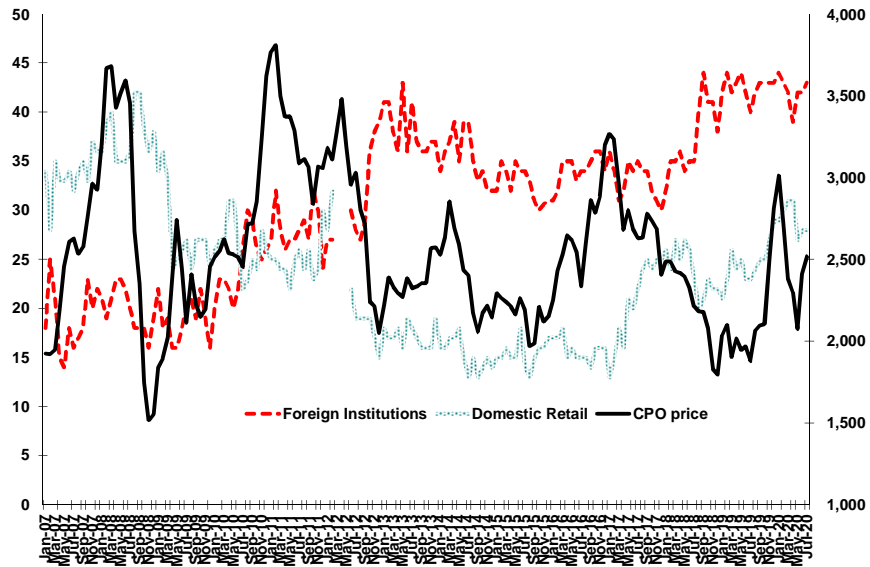
Source: MPOB

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



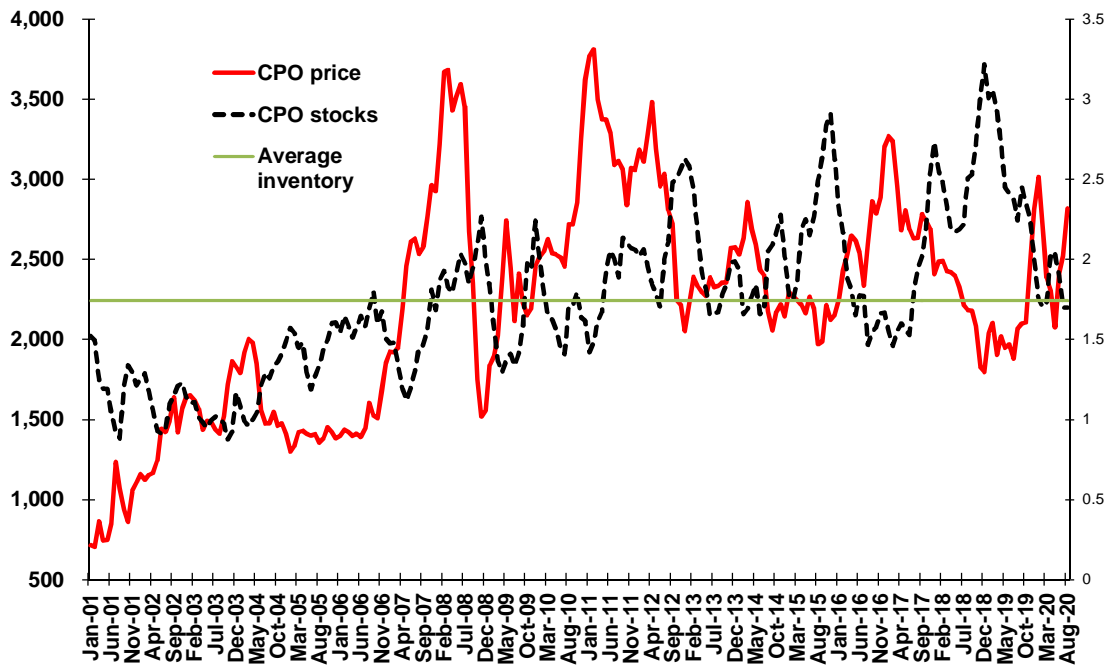
Source: MPOB

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



Source: Bursa Malaysia

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



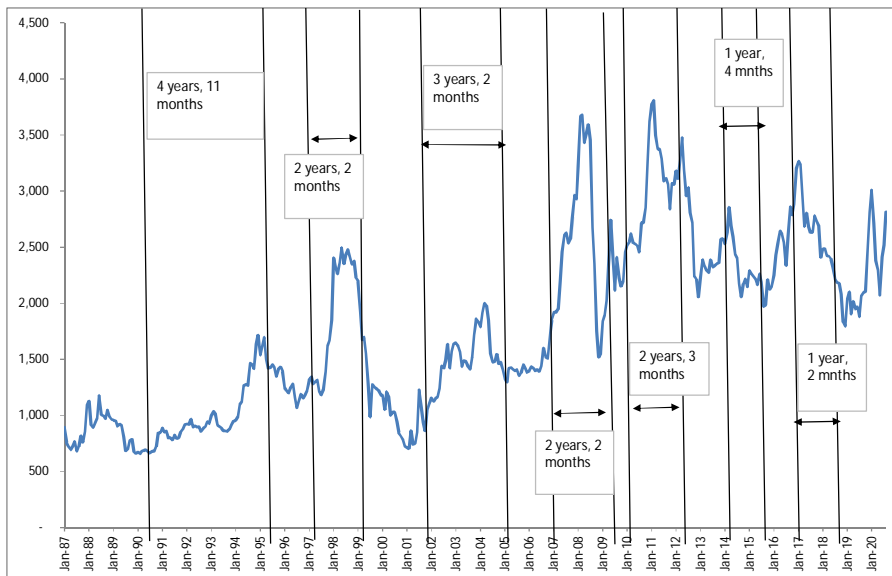
Source: MPOB

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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