



AmInvestment Bank

# PLANTATION

Palm inventory up 1.2% MoM in September

**NEUTRAL**

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Rationale for report: Sector update

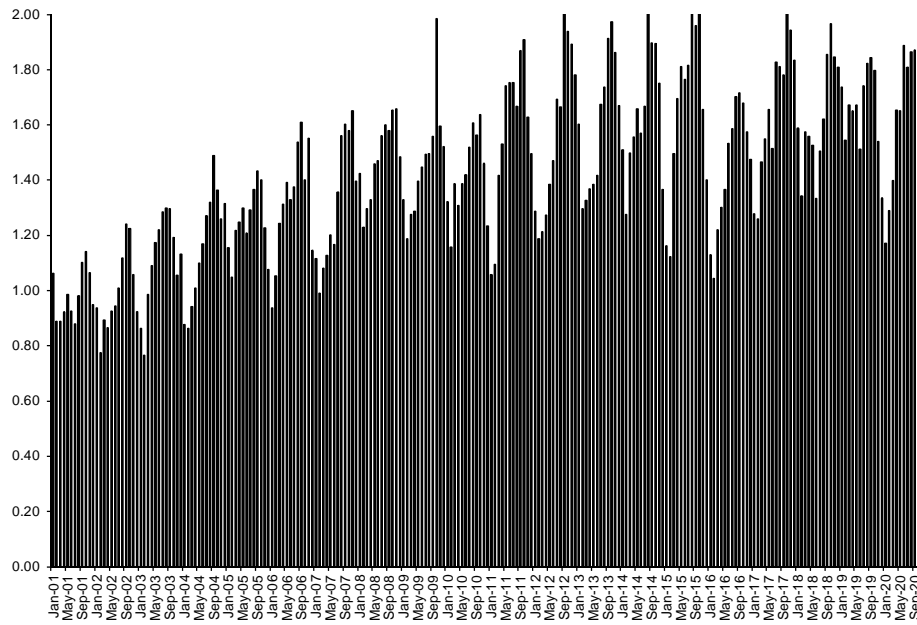
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for September 2020. Malaysia's palm inventory rose for the first time in four months. Palm stockpiles in Malaysia inched up by 1.2% to 1.725mil tonnes as at end-September from 1.70mil tonnes as at end-August. September's palm inventory of 1.725mil tonnes is within *Bloomberg* consensus estimates of 1.72mil tonnes. We reckon that the 1.2% MoM rise in palm stockpiles in September was driven mainly by a 62.3% jump in imports. This offset a small 1.9% MoM uptick in palm exports. We are unsure of the reason for the surge in palm imports in September in Malaysia as the price of CPO in Indonesia was higher than Malaysia's by RM80/tonne to RM90/tonne during the month.
- We think that Malaysia's palm inventory would reach 1.8mil to 1.9mil tonnes by the end of the year on expanding output and slowing exports. As mentioned previously, we reckon that the highest level of CPO production would take place either in October or November 2020. Looking ahead, *Oil World* has forecast Malaysia's CPO production to rise by 3.7% to 19.7mil tonnes in 2021F from 19.0mil tonnes in 2020E.
- The 0.3% MoM increase in CPO production in September was led by Sabah. Sabah recorded a robust 11.8% MoM climb in CPO output in September. In Peninsular Malaysia, CPO production edged down by 1.4% while in Sarawak, CPO output fell by 6.3% MoM to 397,434 tonnes in September. Overall, CPO production in Malaysia slid by 4.0% YoY to 14.6mil tonnes in 9M2020 dragged by the sharp 22.1% plunge in 1Q.
- FFB yields in Malaysia were unexciting in 9M2020 due to the lagged impact of the drought and haze, which took place in 3Q2019. Average FFB yield in Malaysia eased to 12.73 tonnes/ha in 9M2020 from 13.05 tonnes/ha in 9M2019. Compared with Peninsular Malaysia and Sarawak, the YoY drop in FFB yields in Sabah in 9M2020 was the sharpest. Average FFB yield in Sabah shrank by 3.9% to 12.62 tonnes/ha in 9M2020 from 13.13 tonnes/ha in 9M2019. In Peninsular Malaysia, average FFB yield slid by 2.6% to 13.61 tonnes/ha in 9M2020 from 13.98 tonnes/ha in 9M2019. Sarawak's average FFB yield fell to 11.41 tonnes/ha in 9M2020 from 11.51 tonnes/ha in 9M2019.
- Malaysia's CPO exports fell by 8.8% YoY to 12.8mil tonnes in 9M2020 compared with the 4.0% decline in CPO production. CPO exports to India dived by 60.3% YoY to 1.6mil tonnes in 9M2020 due the lockdown in 2Q while the EU bought 3.8% fewer palm products. On the other hand, Malaysia's CPO exports to China climbed by 29.3% YoY in 9M2020 on inventory replenishment.
- Domestic disappearance of Malaysia's palm products fell by 31.0% MoM to 310,080 tonnes in September. We believe that downstream companies had already stockpiled palm products in the previous months before the implementation of the B20 biodiesel policy. The B20 biodiesel policy was 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 assumptions are RM2,300/tonne for 2020E and RM2,400/tonne for 2021F. We believe that CPO and soybean prices are toppish currently as they have already priced in lower-than-expected production. Hence, there is a larger risk of a fall in prices instead of an increase.

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	4.40	15.8	16.4	27.8	26.8	4.30	-2.3%	8.5	1.9%	Hold
KLK	22.22	72.6	90.5	30.6	24.6	24.40	9.8%	50.0	2.3%	Hold
SD Plantation	5.00	7.6	13.8	65.8	36.2	5.50	10.0%	8.0	1.6%	Hold
TH Plantations	0.465	2.6	4.0	17.9	11.6	0.33	-29.0%	2.0	4.3%	Sell
Gent Plant	9.71	27.2	36.0	35.7	27.0	9.72	0.1%	14.0	1.4%	Hold
UM Plantations	1.69	6.2	7.2	27.3	23.5	1.70	0.6%	3.0	1.8%	Hold
TSH Resources	0.990	4.7	4.9	21.1	20.2	1.21	22.2%	1.5	1.5%	Buy
FGV Holdings	1.10	-1.4	2.1	-78.6	52.4	1.14	3.6%	2.5	2.3%	Hold

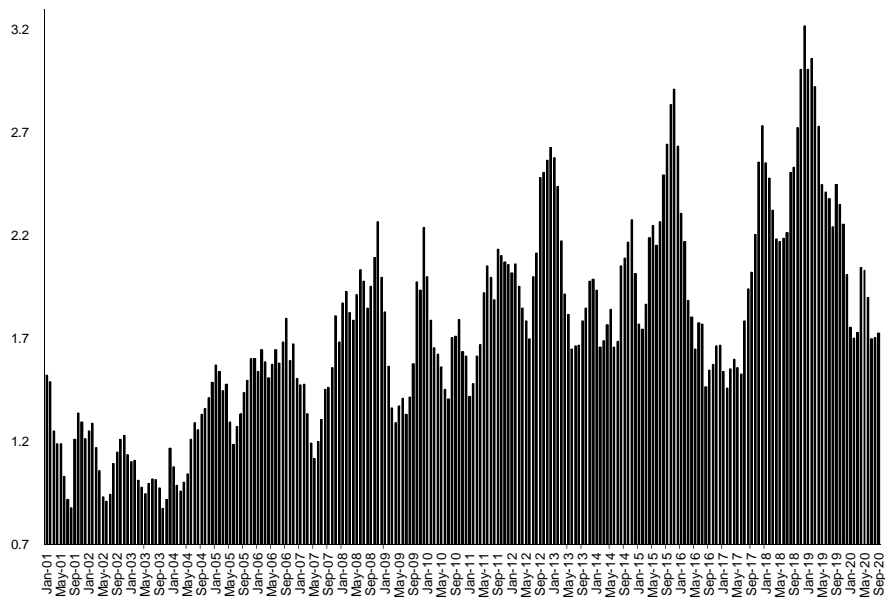
Source: AmInvestment Bank

**CHART 1 : CPO PRODUCTION (MILLION TONNES)**



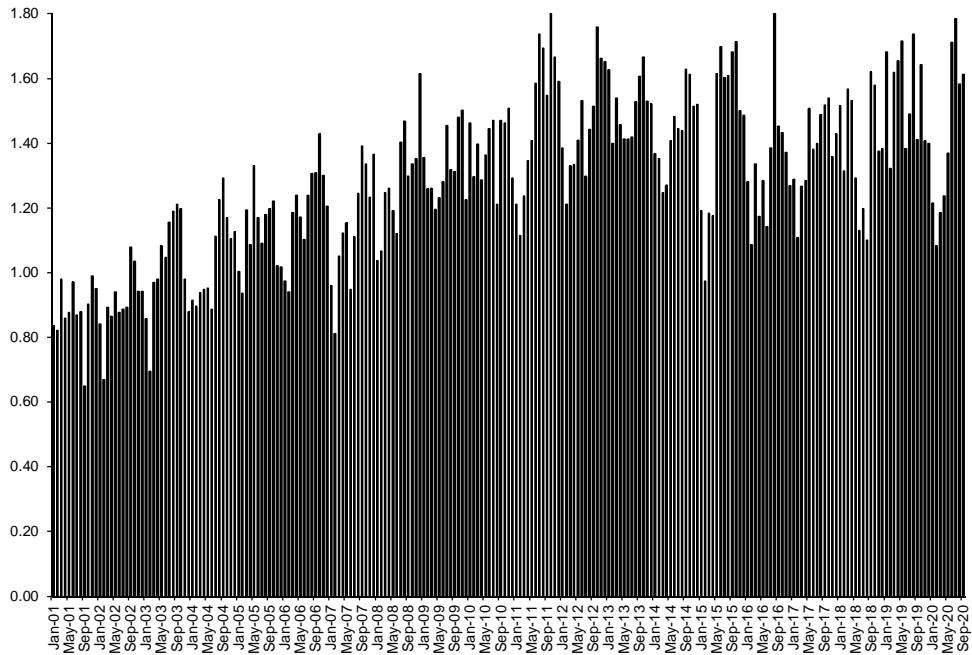
Source: MPOB

**CHART 2 : CPO INVENTORY (MILLION TONNES)**



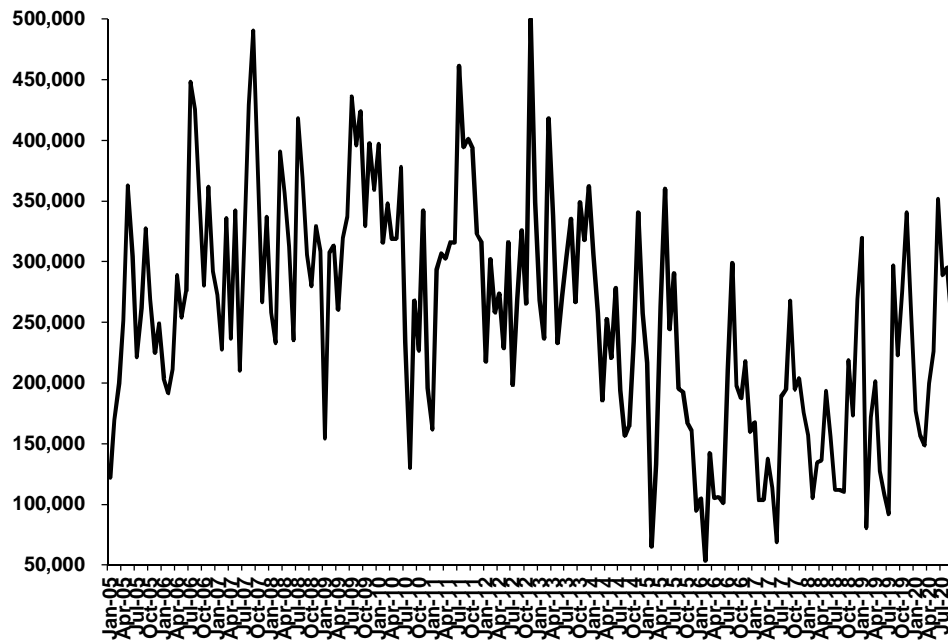
Source: MPOB

CHART 3 : CPO EXPORTS (MILLION TONNES)



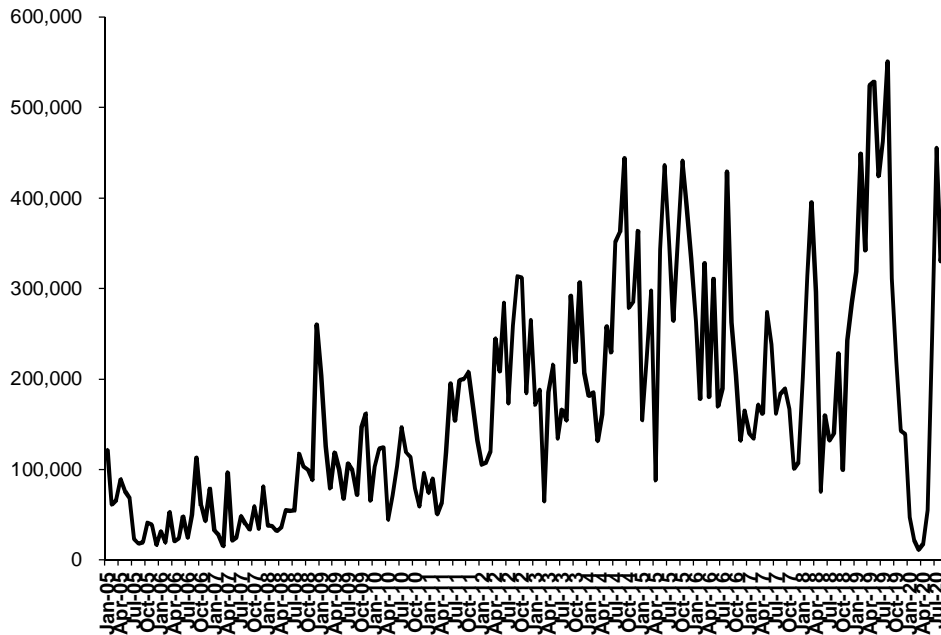
Source: MPOB

CHART 4 : EXPORTS TO CHINA (TONNES)



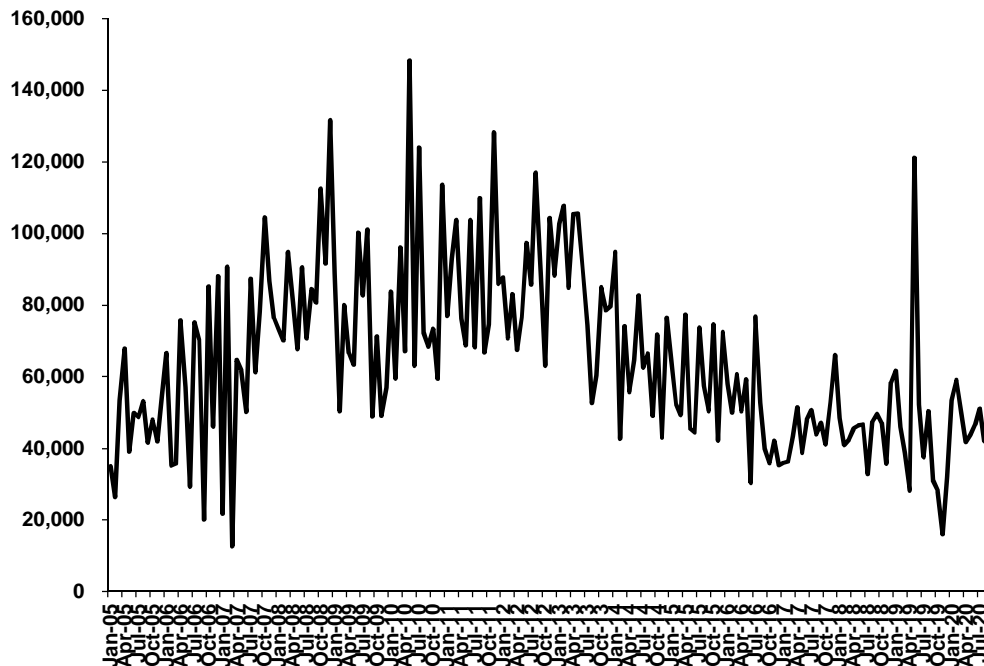
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES)



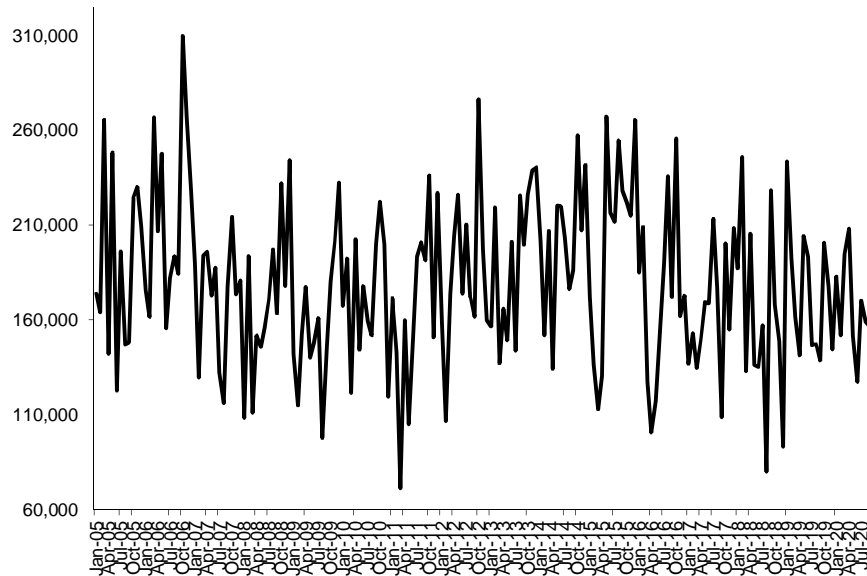
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES)



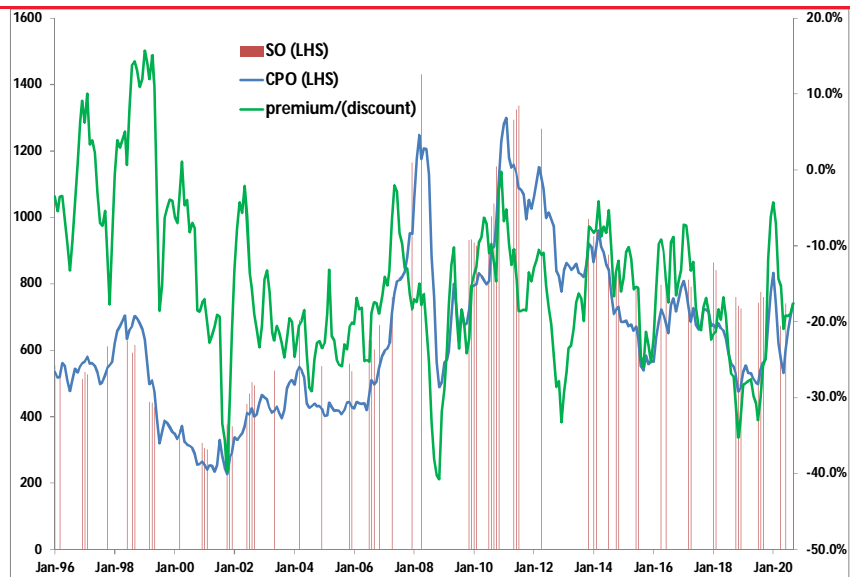
Source: MPOB

CHART 7 : EXPORTS TO EU (TONNES)



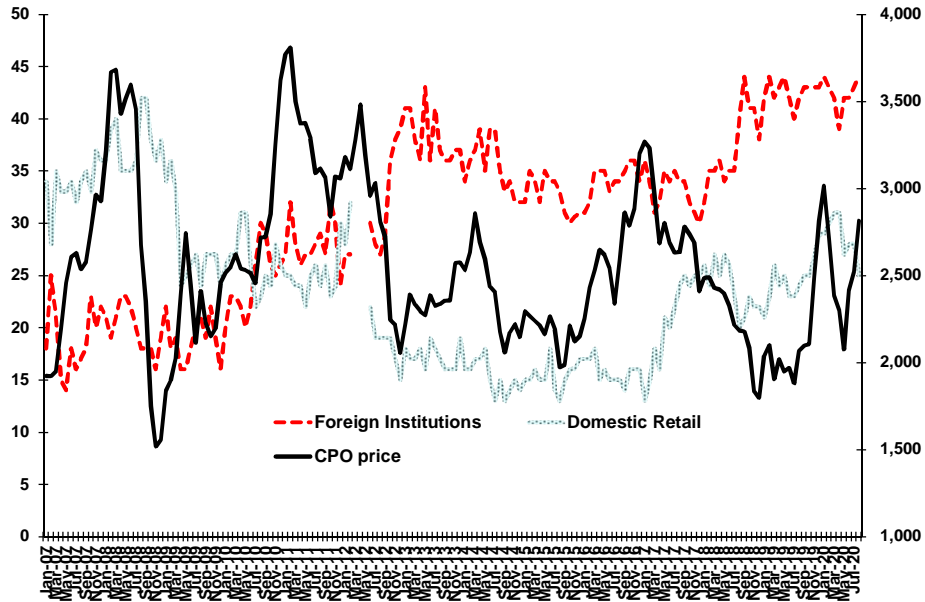
Source: MPOB

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



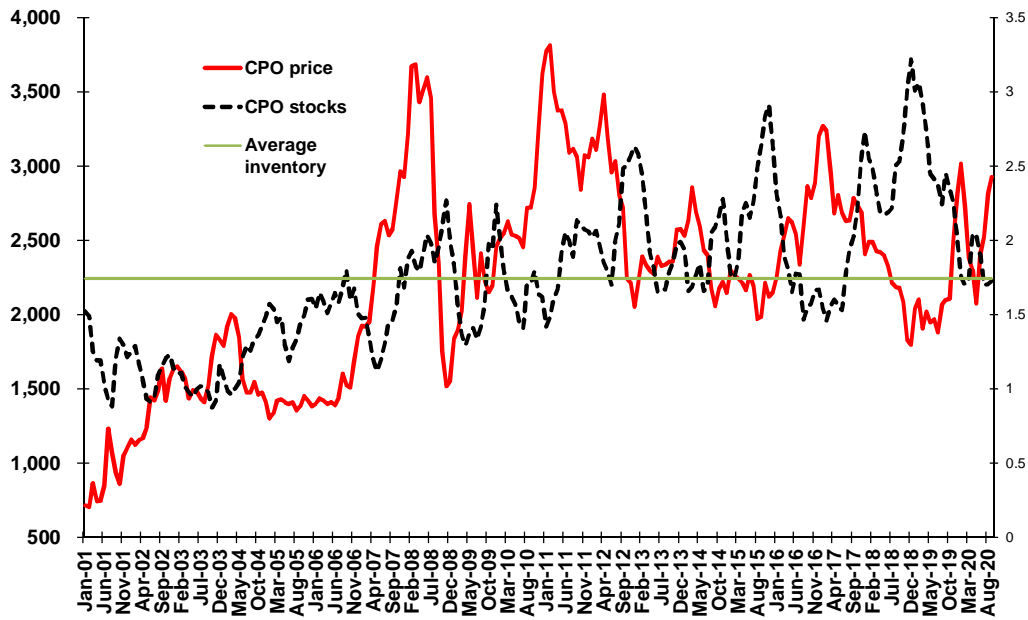
Source: MPOB

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



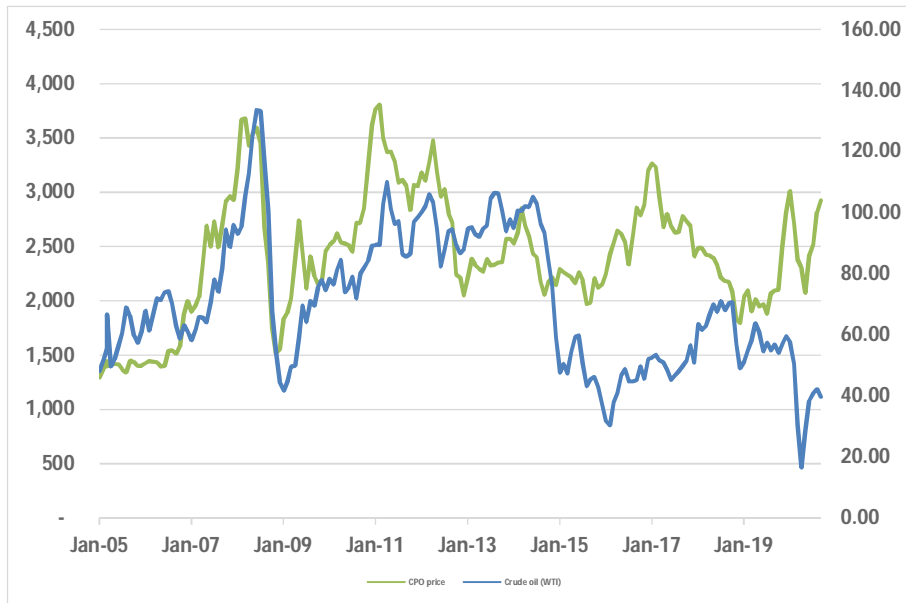
Source: Bursa Malaysia

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



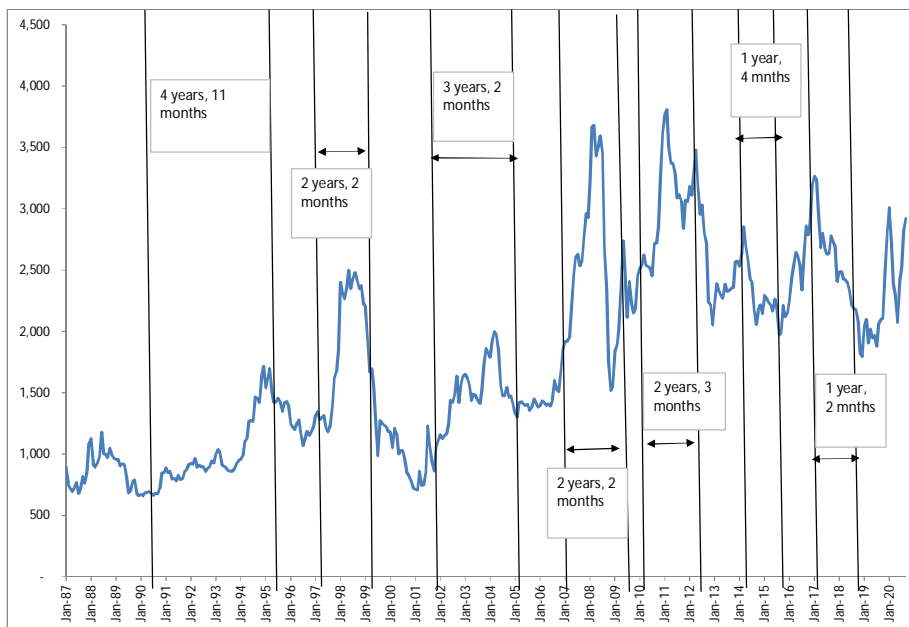
Source: MPOB

**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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