



AmInvestment Bank

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PLANTATION

Palm inventory up 1.5% MoM in May

NEUTRAL

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Rationale for report: Sector update

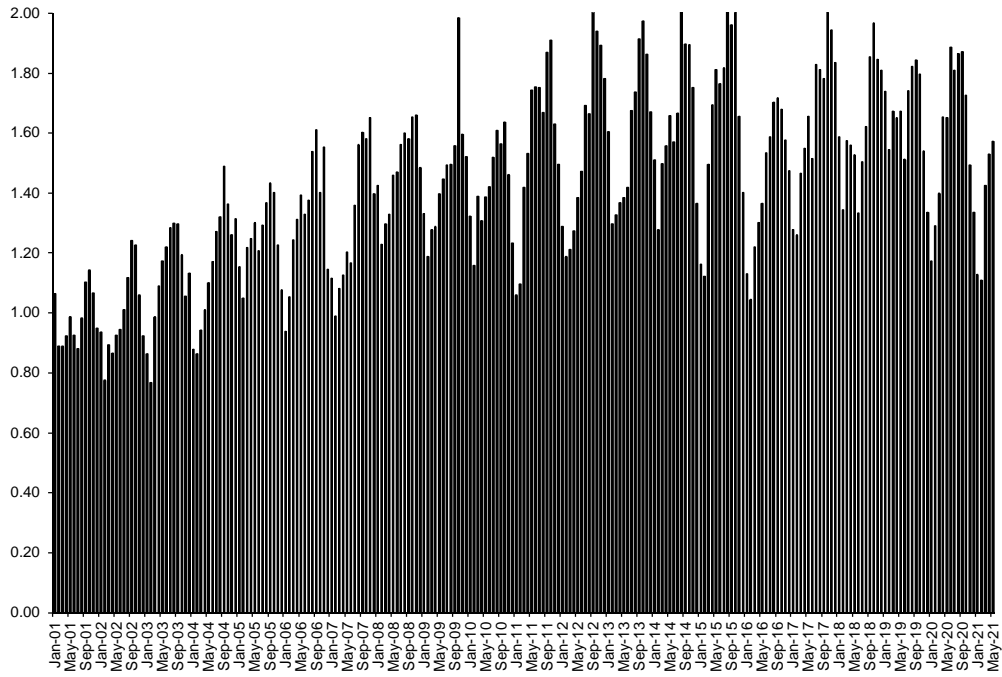
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for May 2021. Palm inventory in Malaysia inched up 1.5% to 1.57mil tonnes as at end-May from 1.55mil tonnes as at end-April. The MoM increase in palm stockpiles in May was largely due to a 2.8% increase in palm production. Also, a 96.1% MoM surge in domestic disappearance in May compensated for the 6.0% fall in exports. *Bloomberg* consensus had expected Malaysia's palm inventory to be 1.63mil tonnes as at end-May.
- Domestic disappearance of palm oil jumped by 96.1% to 399,610 tonnes in May from 203,768 tonnes in April. We are unsure for the reason behind the surge in the domestic usage of palm oil in May. We thought that the movement restriction order would have affected transportation and HORECA activities in May. Going forward, we believe that the implementation of the B20 biodiesel policy in Peninsular Malaysia would be delayed due to Covid-19. This was supposed to be implemented in June 2021. Domestic disappearance of palm oil in Malaysia rose by 1.9% YoY to 1.5mil tonnes in 5M2021.
- Malaysia's palm imports declined by 6.0% to 116,585 tonnes in May from 123,962 tonnes in April. In spite of the MoM fall in May, we believe that imports of palm products from Indonesia by the downstream companies in Malaysia would remain high as the price of CPO in Indonesia is cheaper than Malaysia by more than RM1,200/tonne. Indonesia has raised the CPO export tax to US\$183/tonne in June from US\$144/tonne in May. The CPO export levy was unchanged at US\$255/tonne in June. This means that the CPO export tax and levy would amount to about US\$438/tonne in total in June or RM1,805/tonne.
- CPO production in Malaysia edged up by 2.8% MoM to 1.57mil tonnes in May driven mainly by a strong 8.6% increase in Sabah. On the other hand, CPO output in Peninsular Malaysia only rose by 0.5% MoM in May. In Sarawak, CPO output improved by 2.6% MoM to 329,144 tonnes in May. Comparing 5M2021 against 5M2020, Malaysia's CPO production slid by 5.6% to 6.76mil tonnes. We expect industry CPO production growth to be strong in June in the absence of festive holidays. Estate operations are not expected to be affected by MCO 3.0 as the palm industry is classified as "essential services".
- Malaysia's palm exports fell by 6.0% to 1.27mil tonnes in May from 1.34mil tonnes in April. The MoM contraction in exports in May was mainly due to a 38.4% fall in demand from Turkey and 71.4% plunge in shipments to Iran. India's palm imports rose by 6.2% MoM to 386,000 tonnes in May. Going forward, we believe that India's demand would soften from June onwards as Covid-19 affects palm usage in the HORECA segment. HORECA is estimated to account for 40% to 60% of India's palm consumption. Comparing 5M2021 against 5M2020, Malaysia's palm exports slipped by 7.2% to 5.6mil tonnes.
- We are NEUTRAL on the plantation sector. We believe that CPO prices would come under pressure as industry production picks up in 2H2021. We are keeping our CPO price assumption of RM3,000/tonne for the plantation companies in our coverage.

TABLE 1 : VALUATION MATRIX

	Share price	Basic EPS (sen)		Basic PE (x)		Fair values	Upside	FY21F	FY21F	Rec
	(RM)	FY21F	FY22F	FY21F	FY22F	(RM)		DPS (sen)	Div yield	
IOI Corp	4.02	15.9	16.7	25.3	24.1	4.20	4.5%	8.5	2.1%	Hold
SD Plantation	4.25	18.8	18.3	22.6	23.2	4.90	15.3%	12.0	2.8%	Hold
Gent Plant	7.71	36.0	35.5	21.4	21.7	8.90	15.4%	22.0	2.9%	Hold
TSH Resources	1.13	6.4	6.9	17.7	16.4	1.24	9.7%	2.0	1.8%	Sell
FGV Holdings	1.33	3.7	5.0	36.2	26.6	1.25	-6.0%	3.0	2.3%	Sell

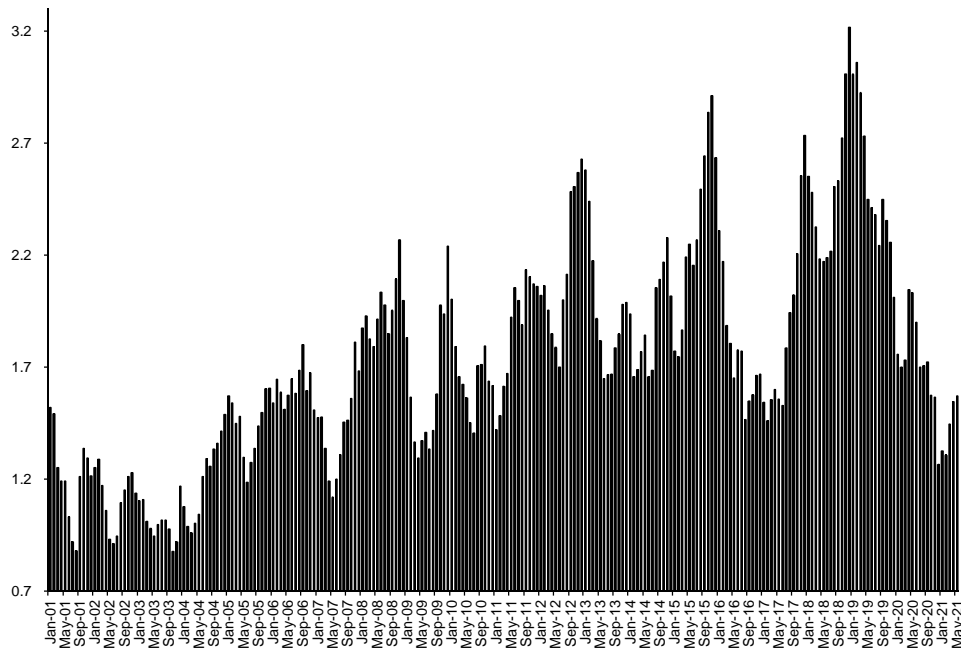
Source: AmInvestment Bank. Share prices as at 9 June 2021

CHART 1 : CPO PRODUCTION (MILLION TONNES)



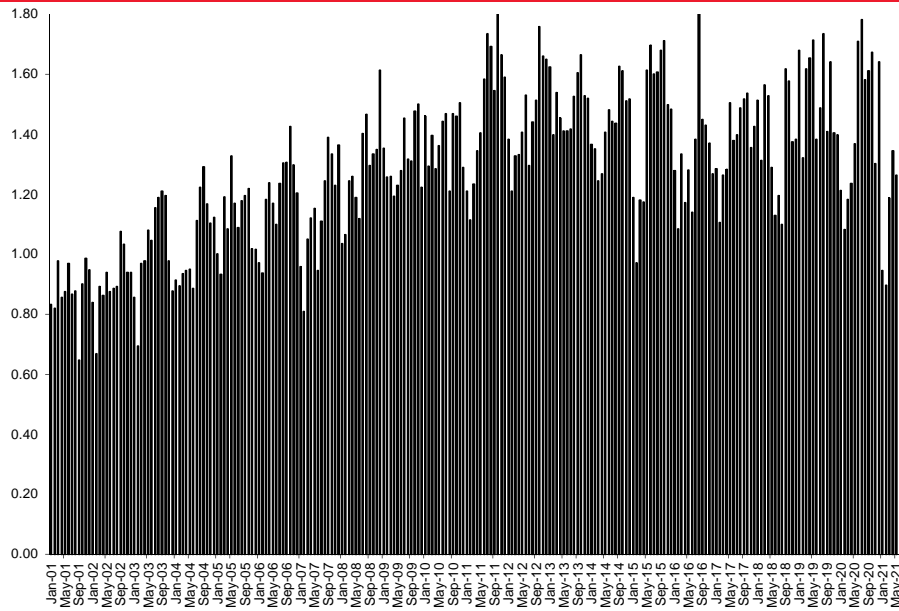
Source: MPOB

CHART 2 : CPO INVENTORY (MILLION TONNES)



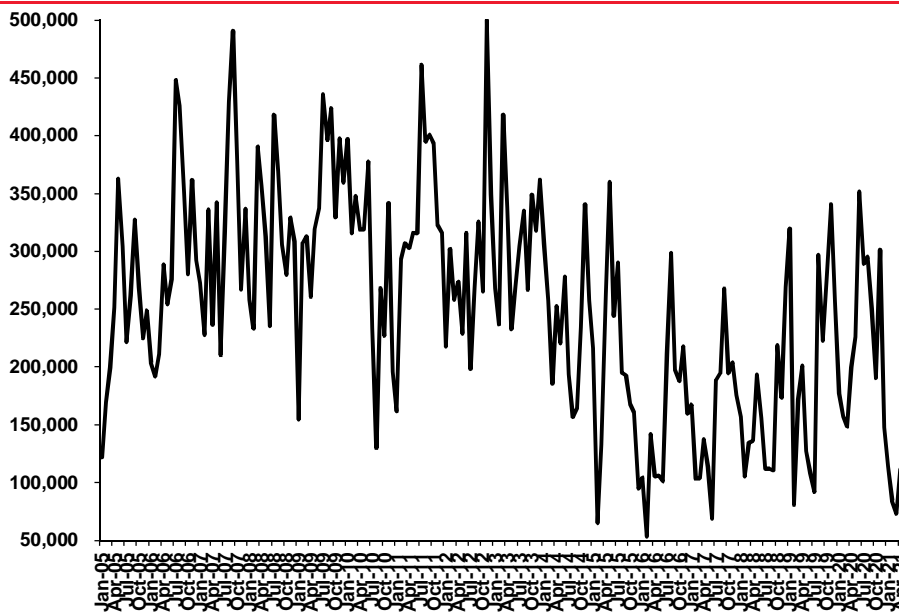
Source: MPOB

CHART 3 : CPO EXPORTS (MILLION TONNES)



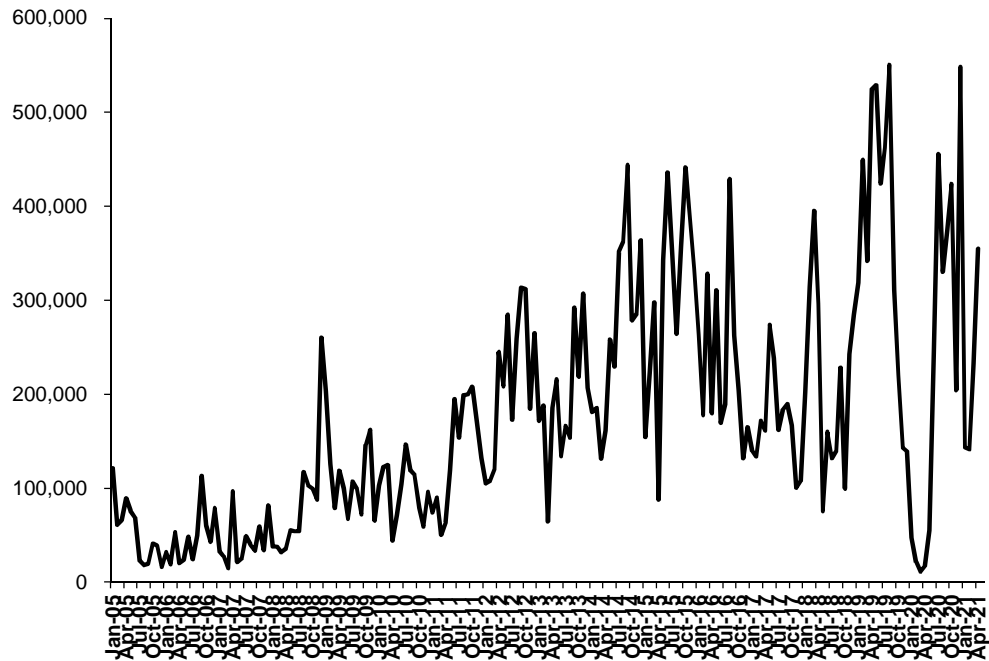
Source: MPOB

CHART 4 : EXPORTS TO CHINA (TONNES)



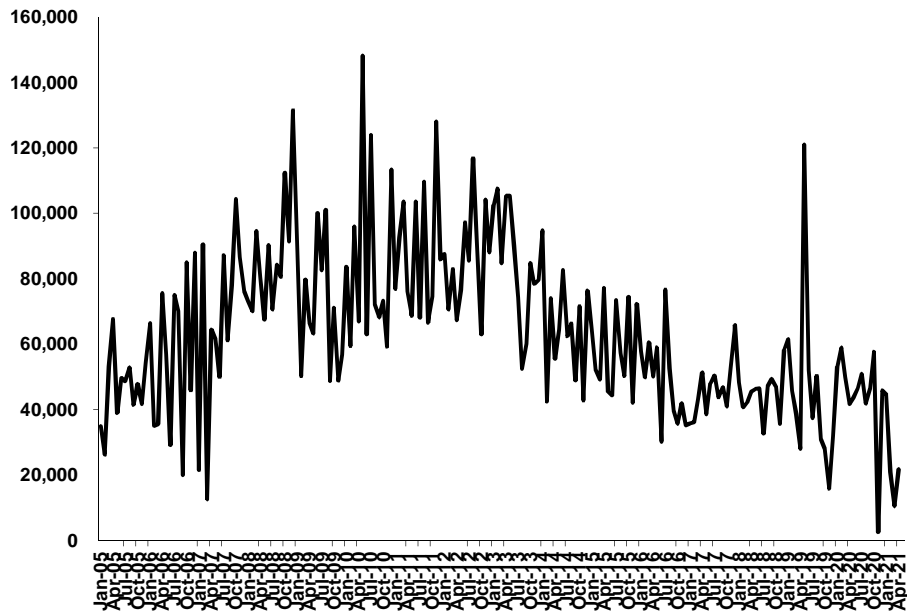
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES)



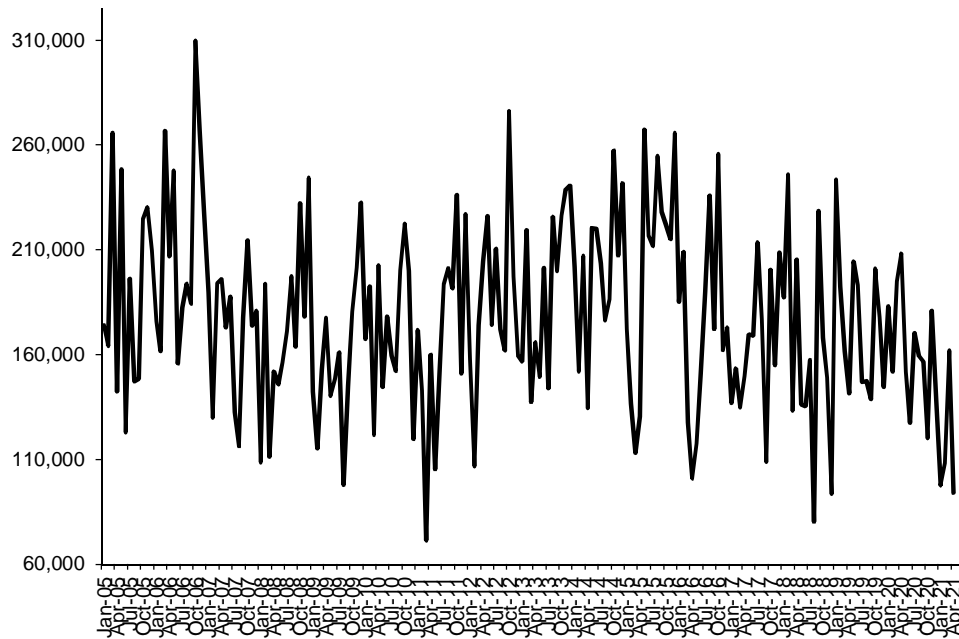
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES)



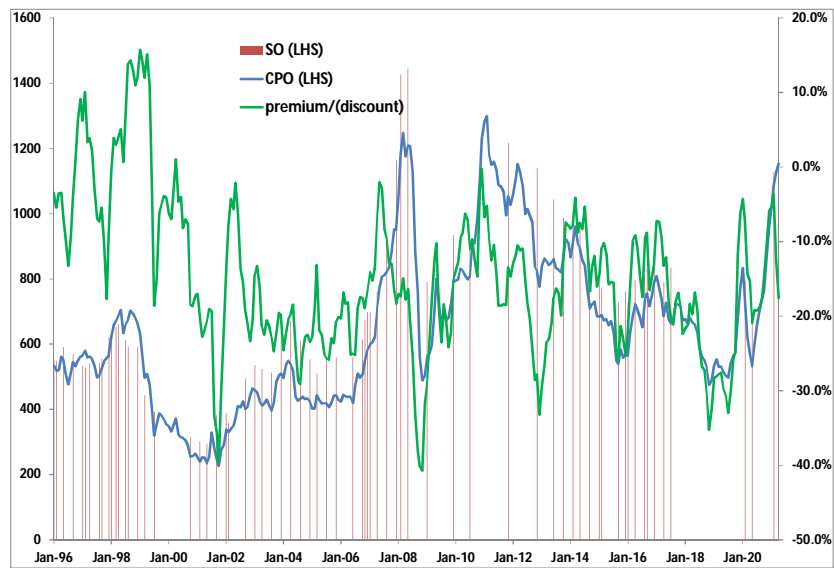
Source: MPOB

CHART 7 : EXPORTS TO EU (TONNES)



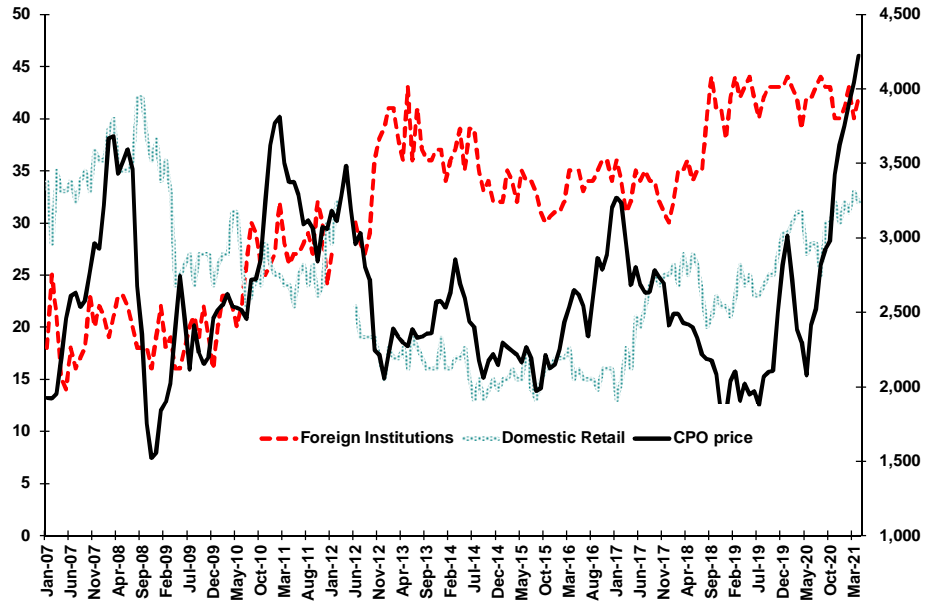
Source: MPOB

CHART 8 : PRICE DISCOUNT (%) BETWEEN CPO (US\$/TONNE) AND SOYBEAN OIL (US\$/TONNE) (UNTIL APR 2021)



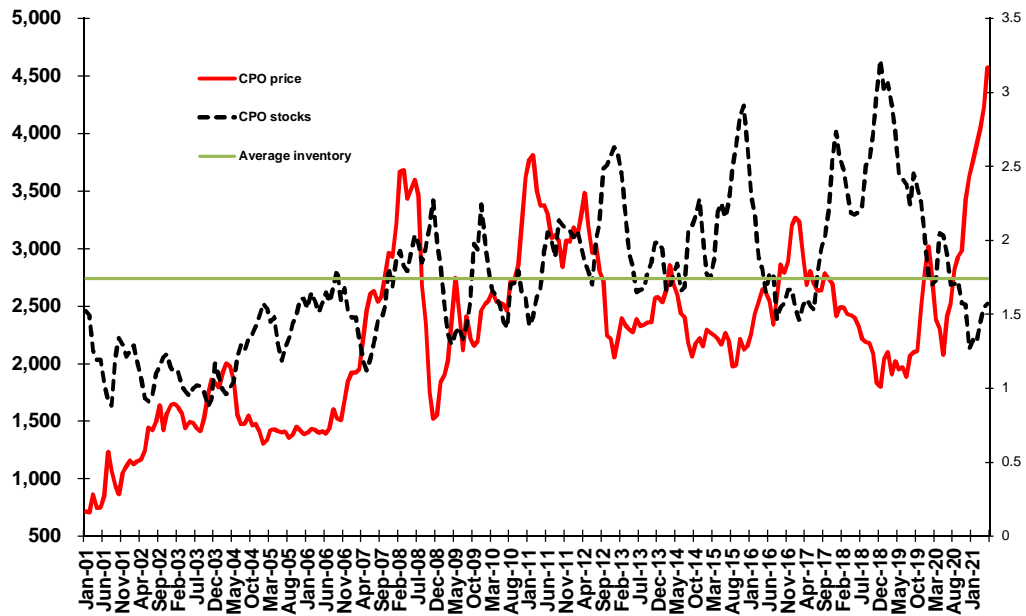
Source: MPOB

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



Source: Bursa Malaysia

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



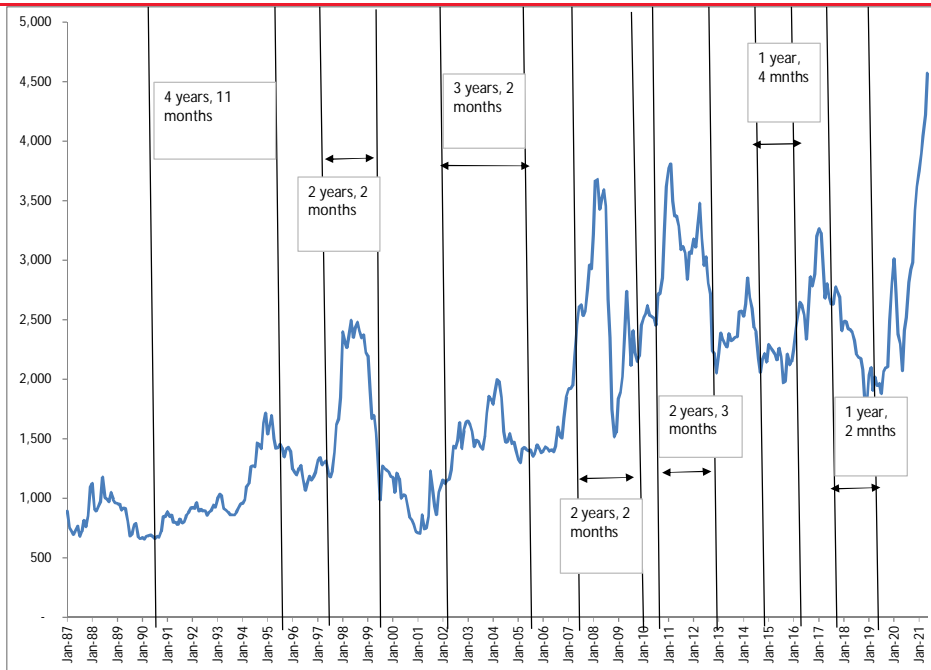
Source: MPOB

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



Source: MPOB, Bloomberg

CHART 12 : HISTORICAL CPO PRICE CYCLE (RM/TONNE)



Source: MPOB

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