



# PLANTATION

Palm inventory down 12.9% MoM in Dec

**NEUTRAL**

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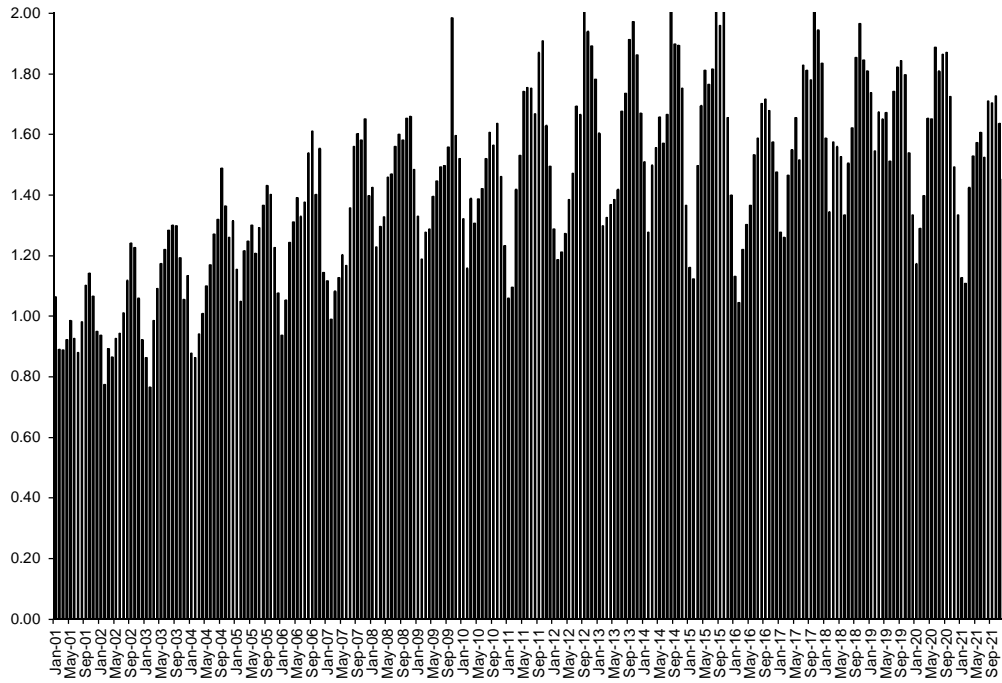
Rationale for report: Sector update

- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for December 2021. Palm inventory in Malaysia fell by 12.9% to 1.58mil tonnes as at end-December from 1.82mil tonnes as at end-November. A year ago, the country's palm inventory was 1.27mil tonnes. The palm stockpile of 1.58mil tonnes in December was sharply below *Bloomberg* consensus of 1.70mil tonnes. The 12.9% MoM fall in inventory in December can be attributed mainly to an 11.3% slump in CPO production, which was larger than the 3.5% fall in exports. Average MPOB spot CPO price was RM4,417/tonne in 2021 compared with RM2,765/tonne in 2020.
- Domestic disappearance of palm oil surged by 32.7% MoM to 406,873 tonnes in December as transportation and dine-in activities picked up. On a yearly basis, domestic disappearance of palm oil was flat at 3.7mil tonnes in Malaysia in 2021. The implementation of the B20 biodiesel policy in the transportation sector has been postponed until end-2022F. In addition, Malaysia implemented MCO 3.0, which restricted economic activities from May to August 2021.
- Malaysia's palm imports increased in 2021. Downstream companies in Malaysia imported 1.4mil tonnes of palm products (mainly from Indonesia) in 2021 compared with 1.2mil tonnes in 2020. The increase in palm imports in 2021 was not surprising as the price of CPO in Indonesia is lower than Malaysia by almost RM1,000/tonne. This is due to the country's CPO export tax and levy. Indonesia's CPO export tax is US\$200/tonne in January 2022 while the export levy is US\$175/tonne. In Malaysia, the CPO export tax rate is 8.0% on a reference price of RM5,302.01/tonne.
- The 11.3% MoM fall in CPO production in December can be attributed mainly to a 14.7% plunge in output in Peninsular Malaysia and 9.0% contraction in Sabah. Comparing 2021 against 2020, Malaysia's CPO production slid by 5.4% to 18.1mil tonnes as there was a shortage of labour. Due to Covid-19, foreign workers were not allowed to enter Malaysia in 2021.
- Floods in Selangor, Johor and Pahang exacerbated the slump in CPO production in December, which was already seasonally weak. CPO output in Selangor plunged by 22.4% MoM in December while CPO production in Johor declined by 9.7%. In Pahang, CPO output dived by 17.7% MoM to 219,541 tonnes in December.
- Looking ahead, we believe that Malaysia's CPO production would rise in 2022F on the back of enhancements in FFB yields. We reckon that FFB yields would increase in 2022F supported by a higher number of foreign workers and a recovery from the lagged impact of the drought, which took place in 2019. *Oil World* has forecast Malaysia's CPO production to rise by 1.0mil to 1.1mil tonnes in 2022F. Indonesia's CPO output is envisaged to improve by 1.7mil to 1.9mil tonnes in 2022F.
- Malaysia's palm exports shrank by 10.6% to 15.6mil tonnes in 2021. The decline in palm exports was mainly due to a 31.4% plunge in demand from China and 15.3% slide in shipments to the EU. On a positive note, Malaysia's palm exports to India climbed by 30.9% to 3.6mil tonnes in 2021.
- We remain NEUTRAL on the plantation sector as ESG concerns are expected to affect the share price performances of plantation stocks. Our average CPO price assumption for 2022F is RM3,000/tonne compared with RM3,500/tonne in 2021.

TABLE 1 : VALUATION MATRIX

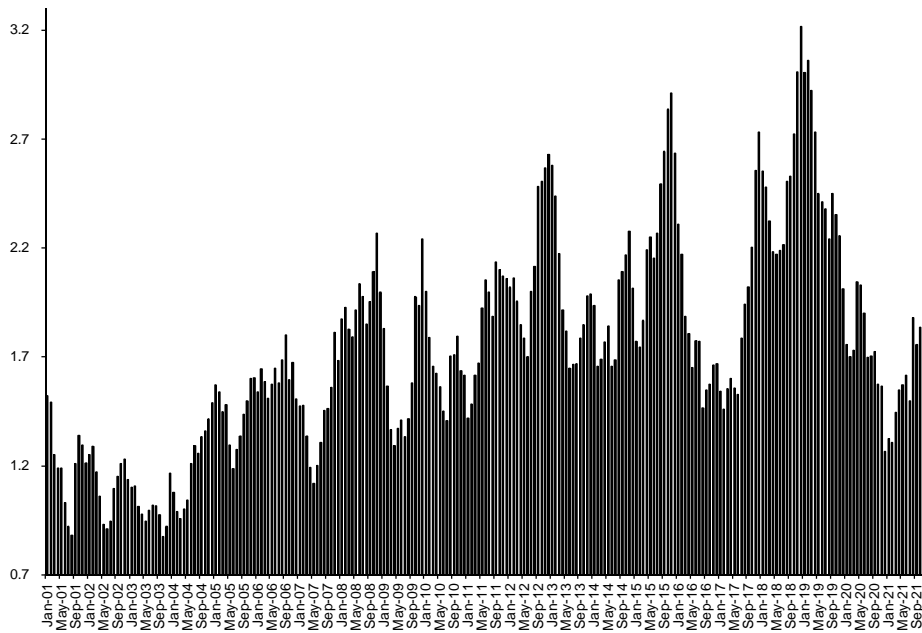
	Share price	Basic EPS (sen)		Basic PE (x)		Fair values	Upside	FY21E/FY22F	FY21E/FY22F	Rec
	(RM)	FY21E/FY22F	FY22F/FY23F	FY21E/FY22F	FY22F/FY23F	(RM)		DPS (sen)	Div yield	
IOI Corp	3.88	17.8	17.9	21.8	21.7	3.95	1.8%	11.0	2.8%	Hold
KLK	21.80	104.6	99.3	20.8	22.0	21.85	0.2%	55.0	2.5%	Hold
SD Plantation	4.02	29.0	20.5	13.9	19.6	4.40	9.5%	16.0	4.0%	Hold
Gent Plant	6.84	41.7	35.4	16.4	19.3	8.00	17.0%	22.0	3.2%	Hold
Hap Seng Plant	2.00	21.7	15.7	9.2	12.7	2.20	10.0%	14.0	7.0%	Hold
TSH Resources	1.12	11.2	6.8	10.0	16.5	1.20	7.1%	2.0	1.8%	Hold
FGV Holdings	1.49	19.6	12.2	7.6	12.2	1.20	-19.5%	3.0	2.0%	Sell

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



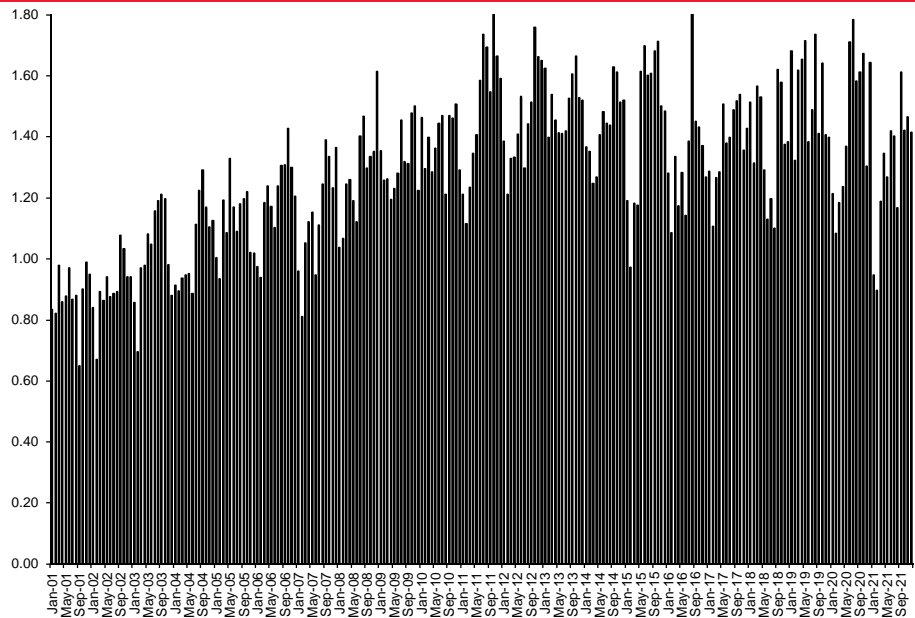
Source: MPOB

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



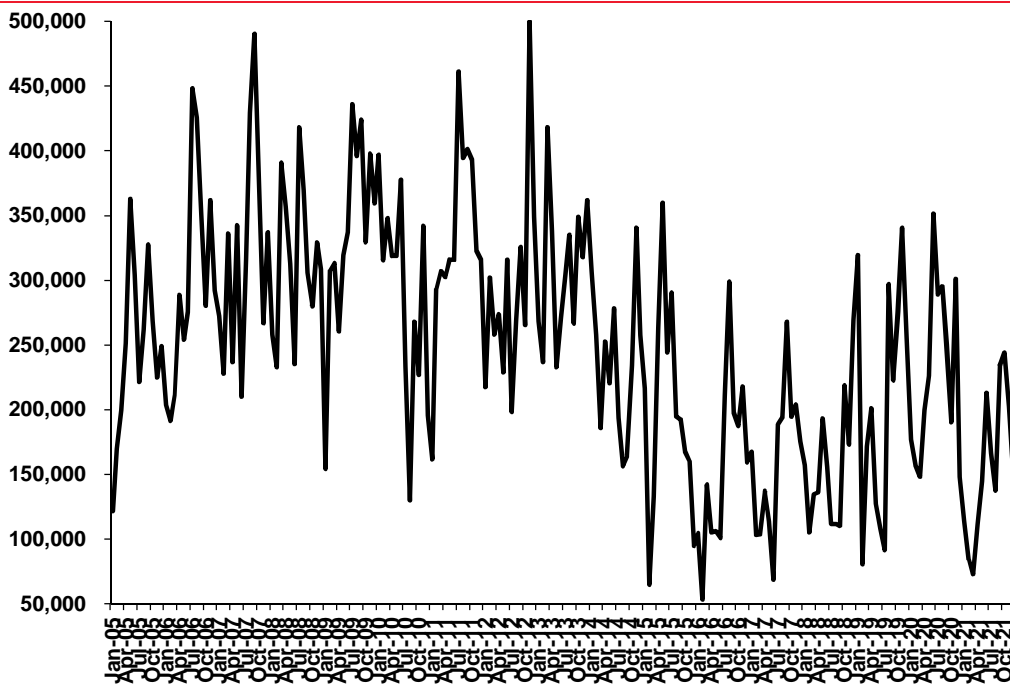
Source: MPOB

**CHART 3 : CPO EXPORTS (MILLION TONNES)**



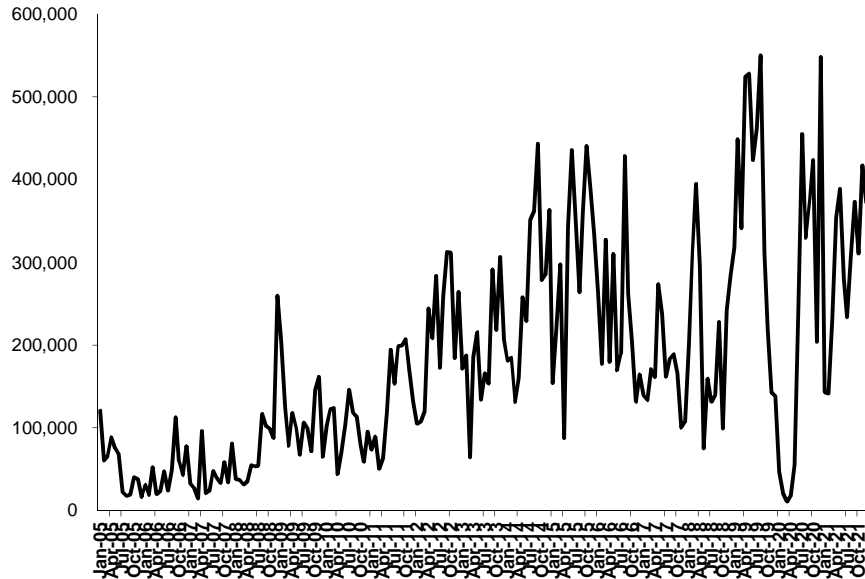
Source: MPOB

**CHART 4 : EXPORTS TO CHINA (TONNES)**



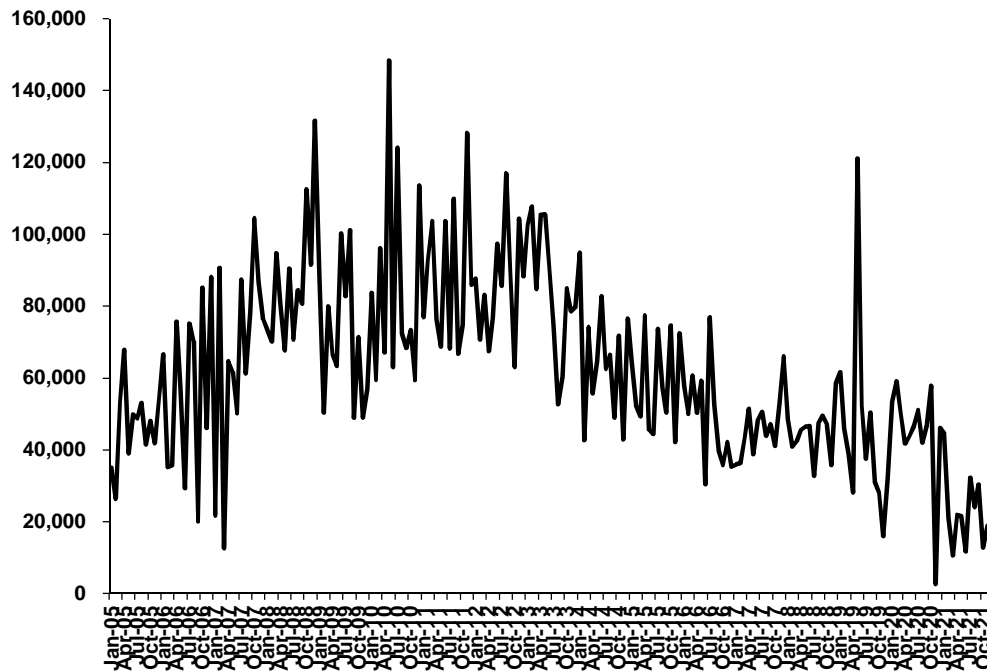
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES)



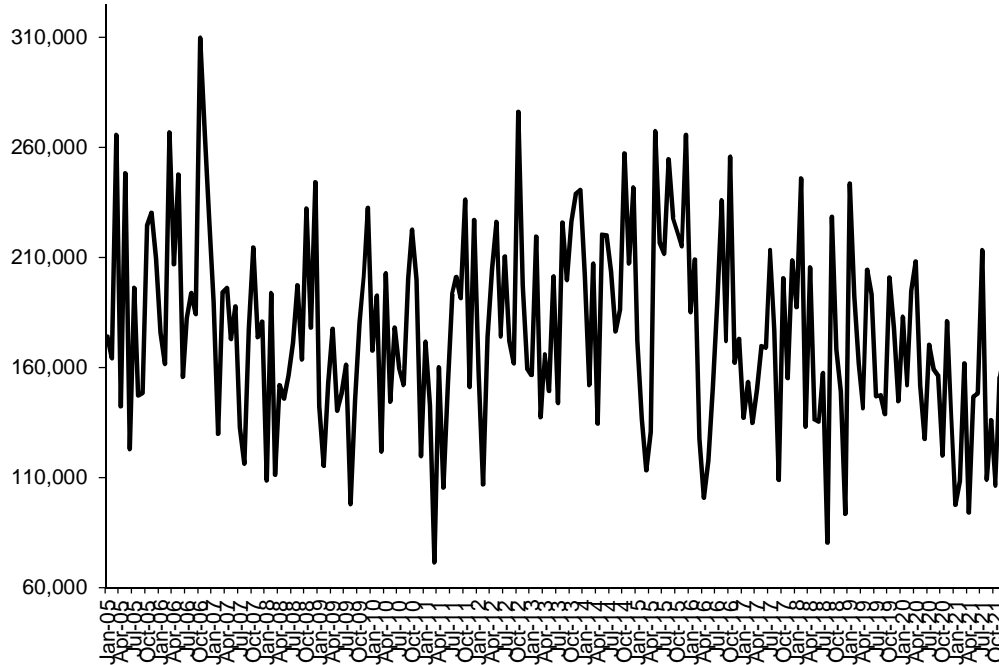
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES)



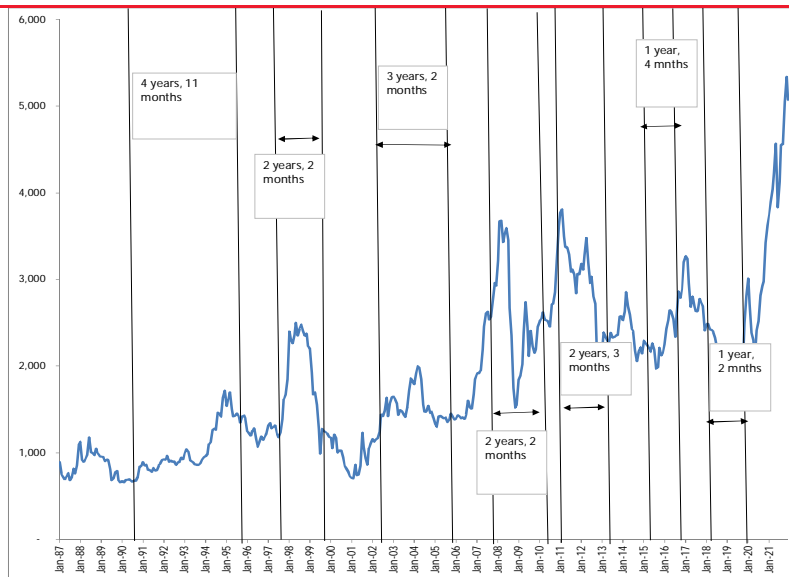
Source: MPOB

CHART 7 : EXPORTS TO EU (TONNES)



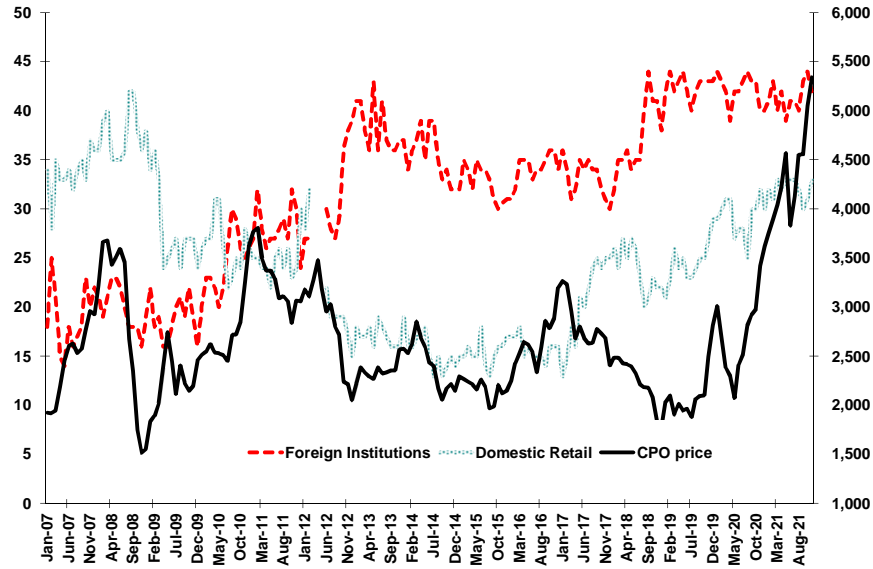
Source: MPOB

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



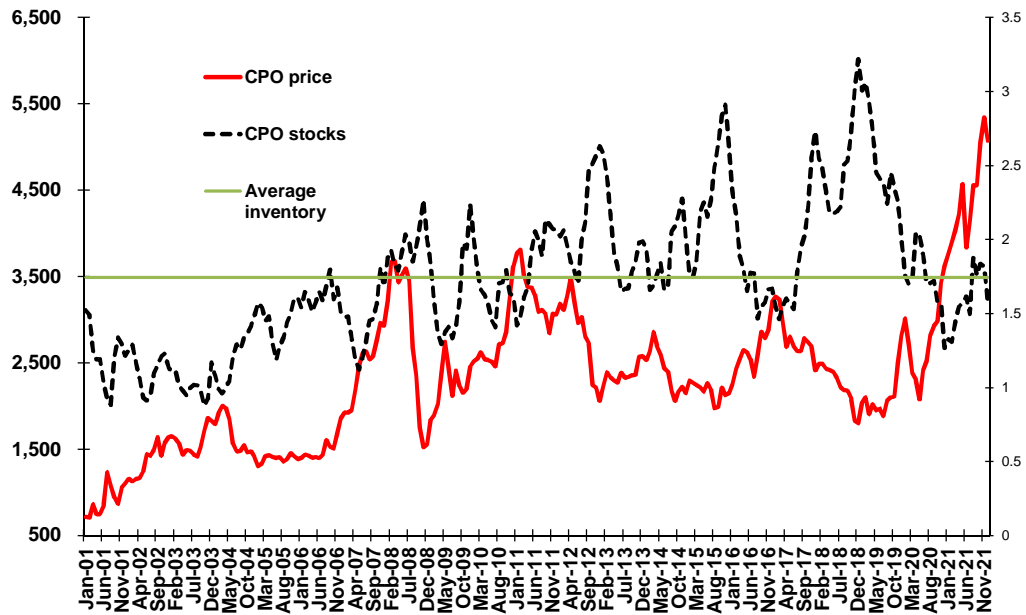
Source: MPOB

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



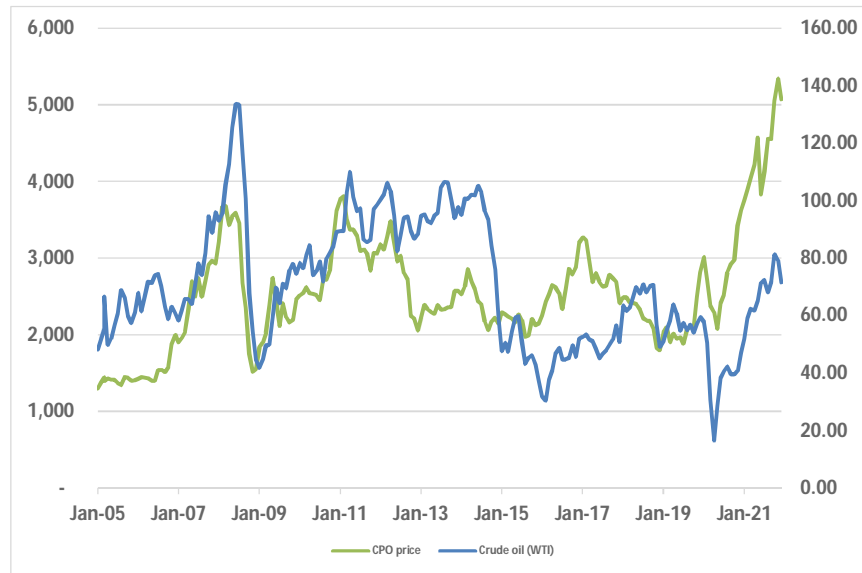
Source: Bursa Malaysia

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



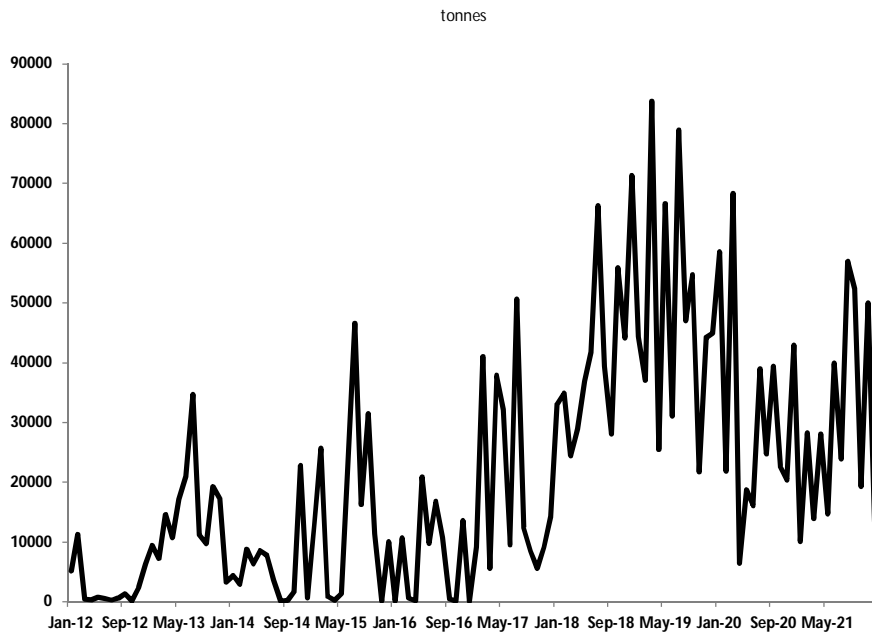
Source: MPOB

**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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