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PLANTATION

*Palm inventory up by 18.3% MoM in April***UNDERWEIGHT**

Gan Huey Ling, CFA

gan-huey-ling@ambankgroup.com

+603 2036 2305

Rationale for report: Sector update

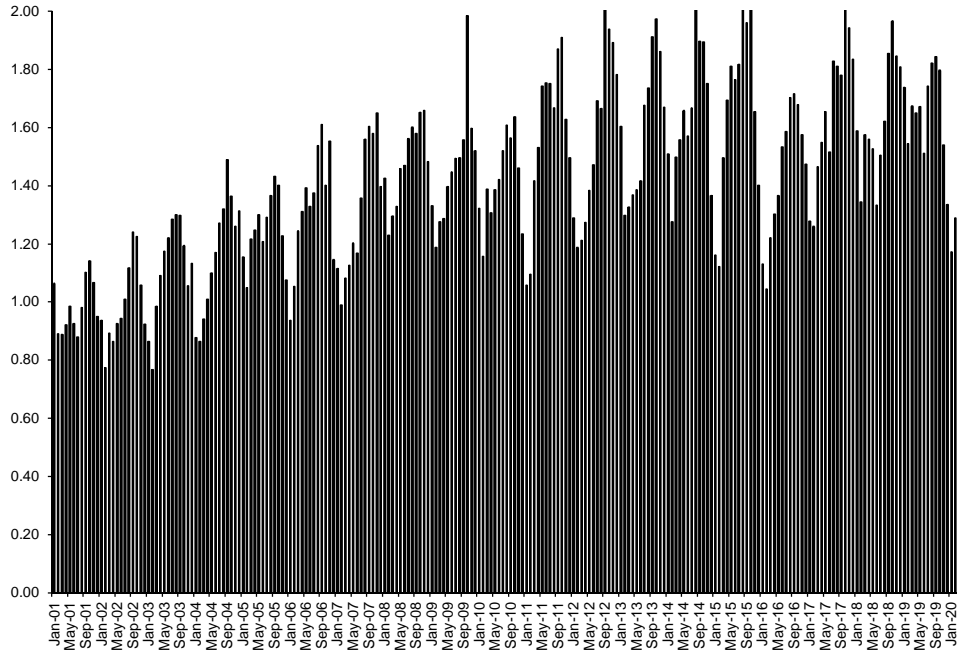
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for April 2020. Malaysia's palm inventory rose for the second time in a row. In spite of the two-week shutdown in estate operations in Sabah in early April, the country's CPO production still rose by 18.3% MoM to 1.65mil tonnes in April. The palm stockpiles of 2.05mil tonnes in April exceeded *Bloomberg* consensus estimates of 1.89mil tonnes.
- Going forward, we believe that palm inventory in Malaysia would continue to rise as estate operations in Sabah have resumed. Also, palm production is expected to improve not only due to oil palm trees entering the peak production period in 2H2020 but also because estate workers are not allowed to return to Indonesia for Aidilfitri festivities. Hence, we reckon that the estate workers would continue harvesting palm fruits in May. We think that Malaysia's palm stockpiles would reach 2.4mil tonnes in the coming months. Average monthly palm inventory was 2.5mil tonnes in Malaysia in 2019. Malaysia's highest level of palm inventory is 3.22mil tonnes, which was recorded in December 2018.
- The 18.3% MoM increase in Malaysia's CPO production in April was led mainly by a 23.1% rise in Sabah and 18.0% expansion in Peninsular Malaysia. In Sarawak, CPO production improved by 13.5% MoM to 319,303 tonnes in April. We believe that without the two-week suspension in estate operations in early April, CPO production in Sabah would have been even stronger.
- Comparing 4M2020 against 4M2019, Malaysia's CPO production fell by 16.6% YoY to 5.5mil tonnes dragged by lower FFB yields. We attribute the drop in FFB yields to the lagged impact of the drought and haze, which hit Malaysia in 3Q2019. The country's FFB yield slid by 21.3% to 3.37 tonnes/ha in 1Q2020 from 4.28 tonnes/ha in 1Q2019.
- Malaysia's palm exports inched up by 4.4% MoM to 1.24mil tonnes in April. This was driven mainly by a 34.7% surge in demand from China and 7.7% rise in exports to the EU. We believe that China's palm demand would continue to improve in the coming months due to the Mid-Autumn festivities and the gradual opening of restaurants. Comparing 4M2020 against 4M2019 however, Malaysia's palm exports contracted by 24.8% compared with the 16.6% decline in production. Palm exports to China shrank by 11.8% YoY in 4M2020 due to Covid-19 while palm exports to India plummeted by 94.1% due to an unofficial trade spat and Covid-19.
- Malaysia's domestic disappearance of palm oil declined by 37.4% MoM to 173,279 tonnes in April. Domestic disappearance of palm oil slid by 13.1% YoY to 369,118 tonnes in 4M2020. We attribute the YoY fall in domestic offtake in 4M2020 to a slowdown in biodiesel activities. Recall that Malaysia has postponed the implementation of the B20 biodiesel blending mandate in Sabah, Sarawak and Peninsular Malaysia due to the Covid-19 pandemic.
- We maintain UNDERWEIGHT on the plantation sector. Our average CPO price assumption is RM2,300/tonne for 2020F. Average MPOB spot prices were RM2,602/tonne in 4M2020 vs. RM2,015/tonne in 4M2019.

TABLE 1 : VALUATION MATRIX

	Share price	Basic EPS (sen)		Basic PE (x)		Fair values	Upside	FY20F	FY20F
	(RM)	FY20F	FY21F	FY20F	FY21F	(RM)		DPS (sen)	Div yield
IOI Corp	3.85	13.2	15.8	29.2	24.4	3.17	-17.7%	8.0	2.1%
KLK	20.60	78.9	90.4	26.1	22.8	18.10	-12.1%	55.0	2.7%
SD Plantation	4.74	12.2	13.7	38.9	34.6	3.43	-27.6%	5.0	1.1%
TH Plantations	0.32	2.7	4.0	11.7	7.9	0.19	-39.7%	2.0	6.3%
Gent Plant	9.40	34.8	36.0	27.0	26.1	7.19	-23.5%	14.0	1.5%
UJM Plantations	1.37	2.8	6.3	48.9	21.7	1.13	-17.5%	2.0	1.5%
TSH Resources	0.72	4.3	4.4	16.7	16.4	0.66	-8.3%	1.5	2.1%
FGV Holdings	0.93	1.4	2.0	66.4	46.5	0.70	-24.7%	2.5	2.7%

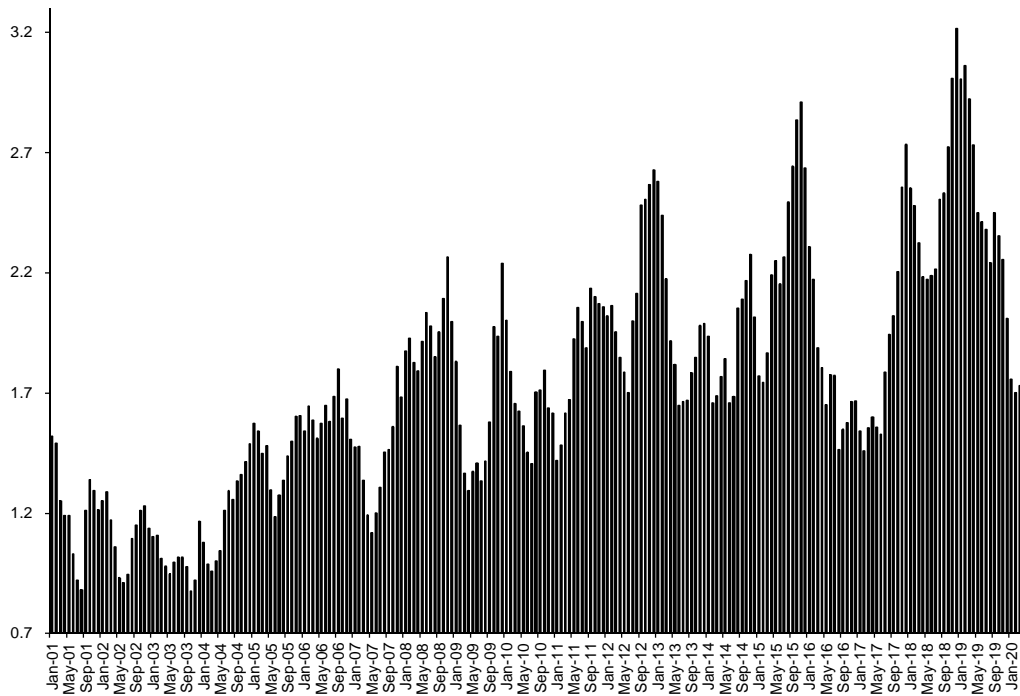
Source: AmInvestment Bank

CHART 1 : CPO PRODUCTION (MILLION TONNES)



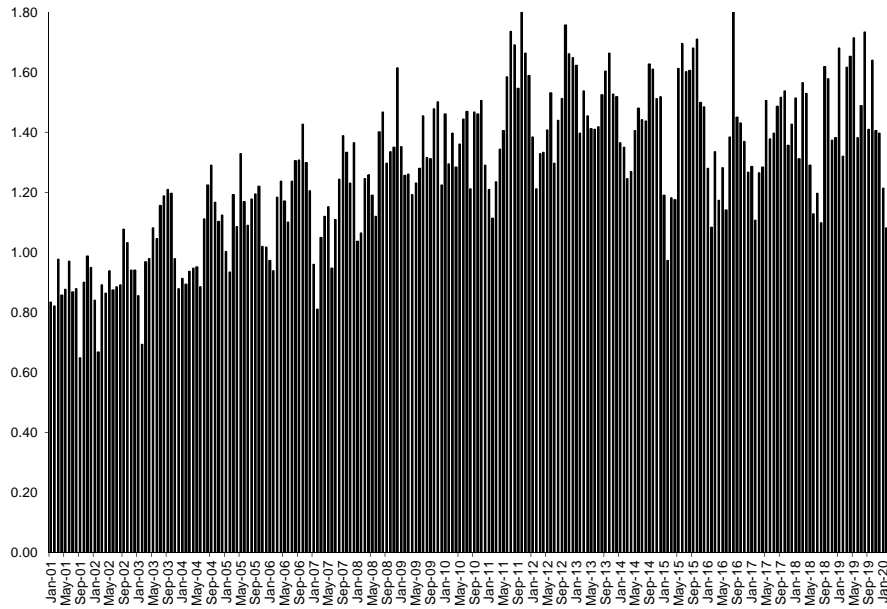
Source: MPOB

CHART 2 : CPO INVENTORY (MILLION TONNES)



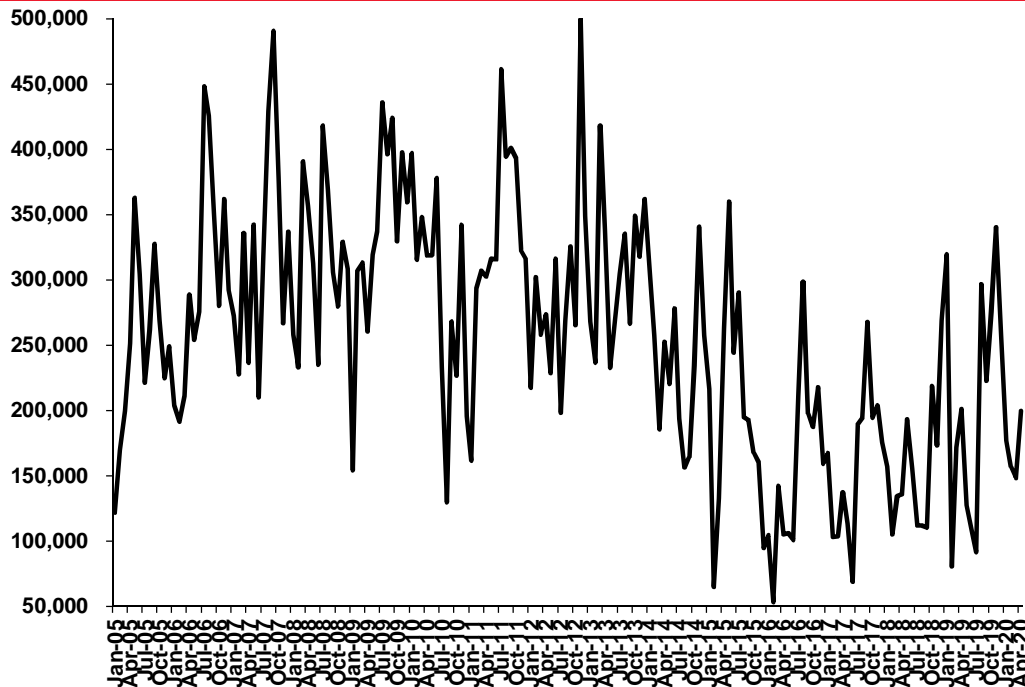
Source: MPOB

CHART 3 : CPO EXPORTS (MILLION TONNES)



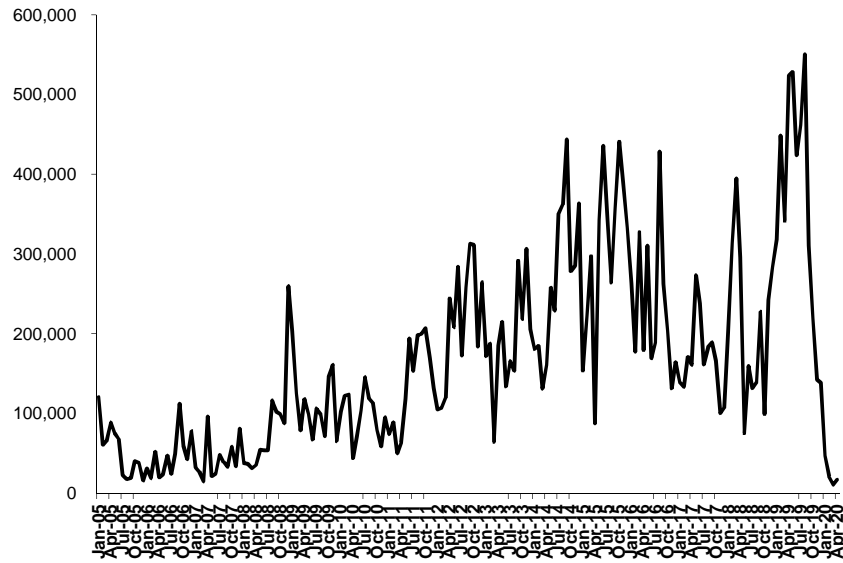
Source: MPOB

CHART 4 : EXPORTS TO CHINA (TONNES)



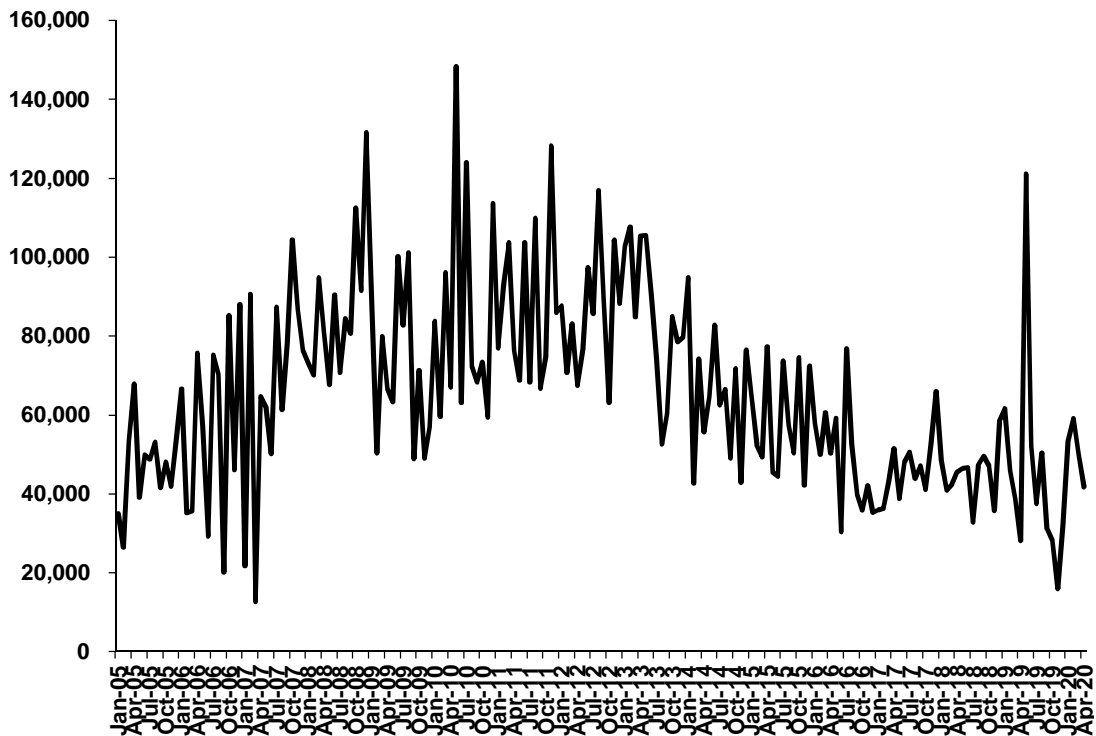
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES)



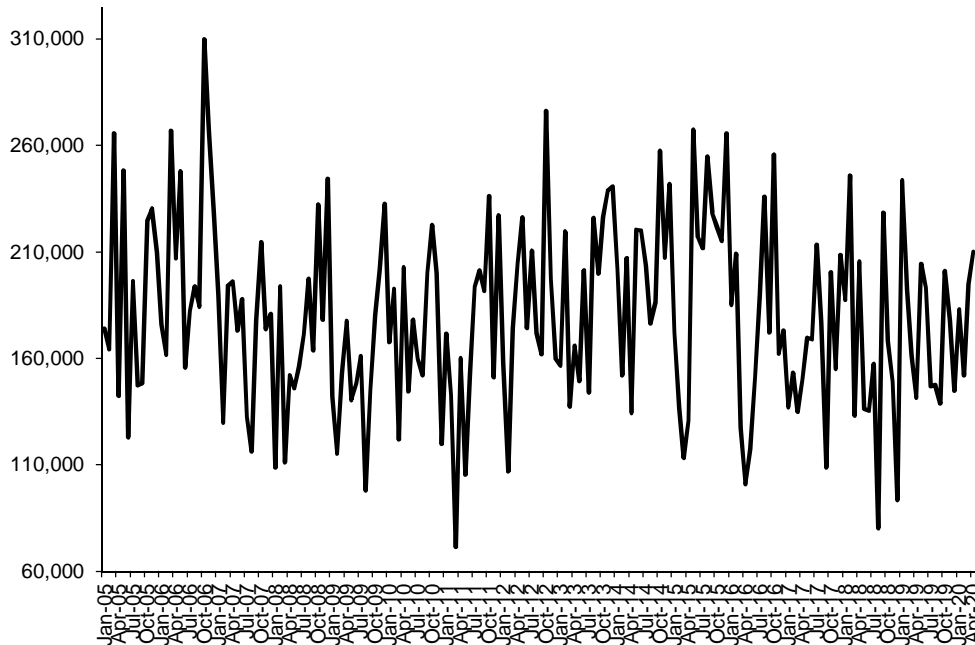
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES)



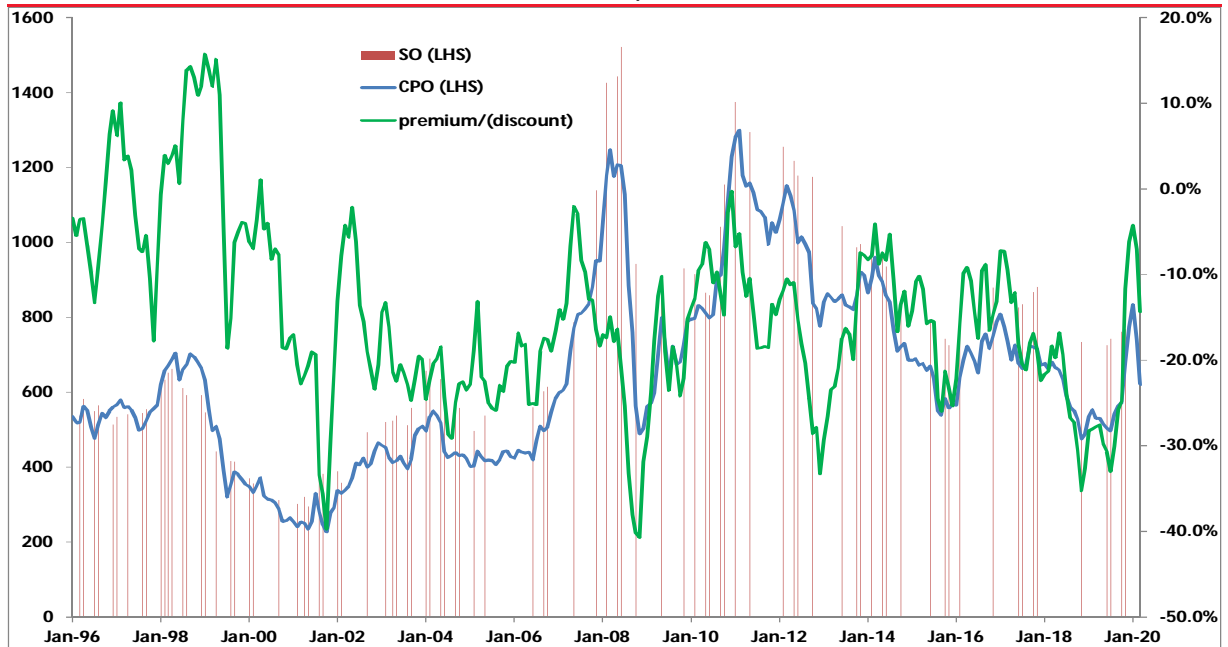
Source: MPOB

CHART 7 : EXPORTS TO EU (TONNES)



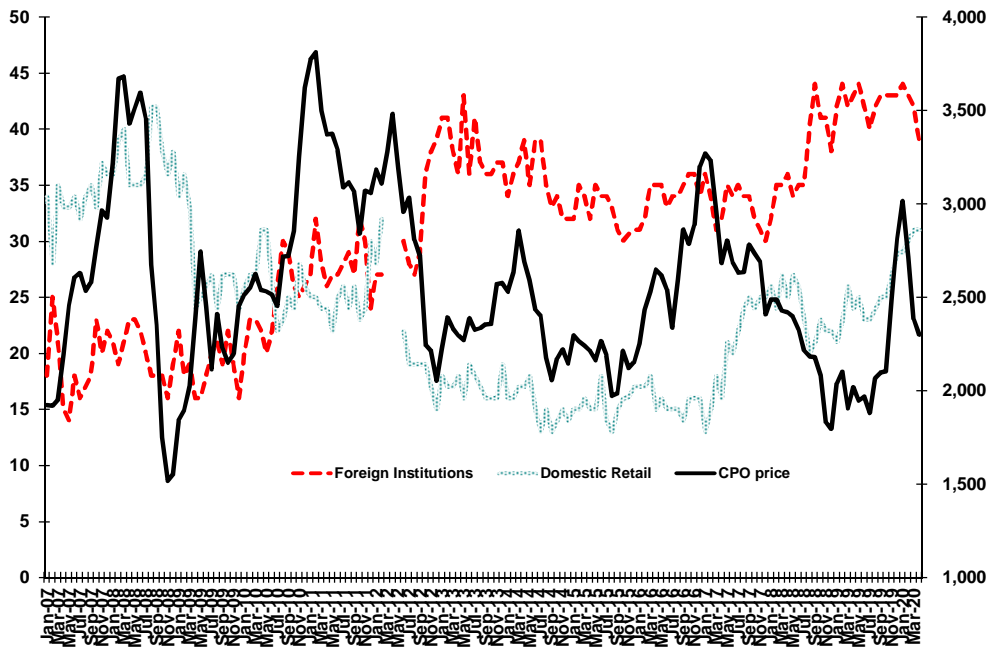
Source: MPOB

CHART 8 : PRICE DISCOUNT (%) BETWEEN CPO (US\$/TONNE) AND SOYBEAN OIL (US\$/TONNE) (UNTIL MAR 2020)



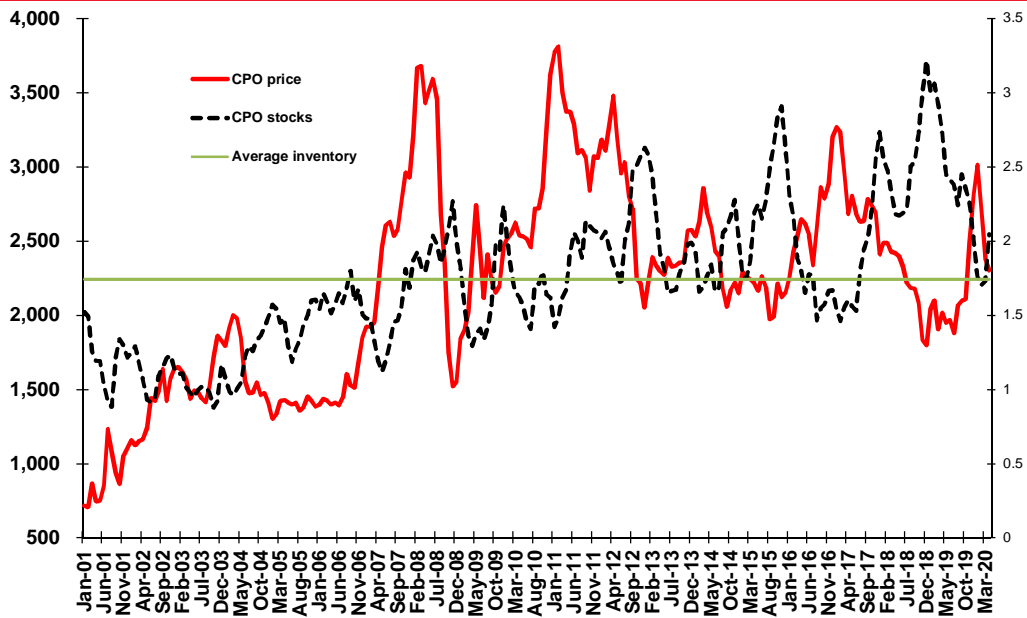
Source: MPOB

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



Source: Bursa Malaysia

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



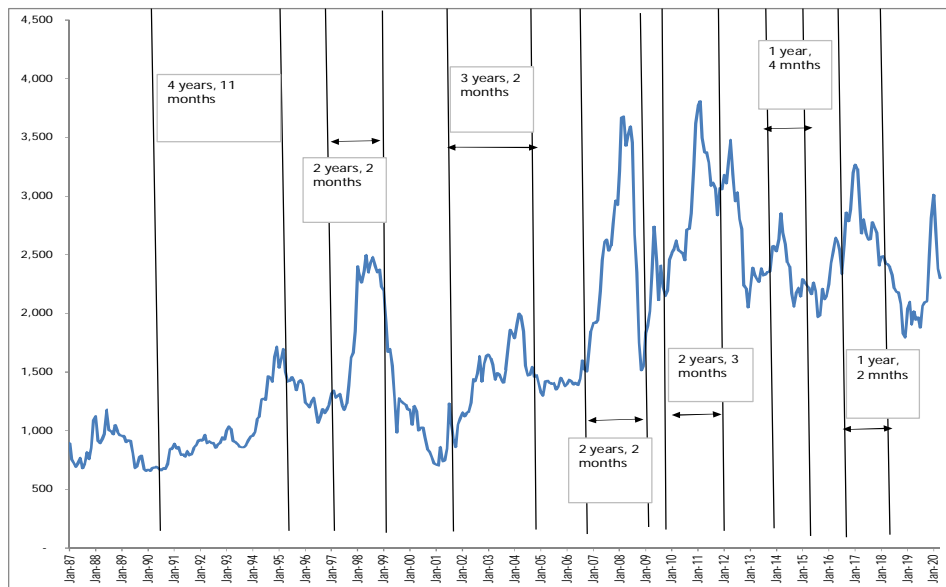
Source: MPOB

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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