

Plantation

NEUTRAL

Flat November Inventory



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Review of November figures:

November inventory of 1.56m MT (-0.6% MoM) came in within our/consensus expectation. However, production was lower-than-expected which offset lower-than-expected exports. Key contributors to the decline in exports (-22.1% MoM) were: (i) India, (ii) Iran, (iii) Ghana, (iv) Nigeria, and (v) Turkey, mainly due to post-festive (Diwali & Islamic holidays) dip in demand.

Our projection for December:

For December, we forecast: (i) lower production (-7.7% MoM) as typically production dips 3-4 months consecutively after peaking (Sep), and (ii) exports to decline (-2.4% MoM). Data from cargo surveyors for 1st – 10th December have shown an average 6% MoM decline in exports, but we expect the decline to narrow by the end of December. All-in, we expect total demand to outstrip total supply leading to lower ending stocks of 1.48m MT (-5.6% MoM).

Our thoughts on the sector:

Moving forward, the spotlight should fall on the supply-demand dynamics changes from: (i) strength of production recovery in 2021, (ii) potential demand switch from palm oil to soybean oil during winter, (iii) Malaysian palm oil export tax structure beyond Dec 2020, and (iv) current palm oil premium to soybean oil eroding the former's competitive advantage. **Stay NEUTRAL on the plantation sector with an unchanged CY21 price forecast of RM2,600/MT.** Our preferred small cap pick is **HSPLANT (OP; TP: RM2.15)**, while our large cap pick is **KLK (OP; TP: RM26.00)**.



November 2020 CPO inventory came in lower (-0.6%) MoM at 1.56m metric tons (MT). This is more or less within our/consensus' estimate of 1.52m/1.54m MT (-3.3%/-2.2% MoM). However, production was lower-than-expected at 1.49m MT (-13.5% MoM) vs. our estimated 1.66m MT (-3.7% MoM), offset by lower-than-expected exports of 1.30m MT (-22.1% MoM) vs. our estimated 1.52m MT (-9.2% MoM). Key contributors to the decline in exports came from: (i) India (-52% MoM), (ii) Iran (-95% MoM), (iii) Ghana (-85% MoM), (iv) Nigeria (-65% MoM), and (v) Turkey (-78% MoM), mainly due to post-festive season (Diwali & Islamic holidays) demand decline, as highlighted earlier.

Forecasting December 2020 production to trend lower (-7.7% MoM) to 1.38m MT. Earlier on, we highlighted that peak production could have occurred in September as cropping patterns could have shifted ahead. November production figures have now confirmed that peak production is indeed over. Typically, production dips 3-4 months consecutively after peaking and as such, we forecast production to decline further by 7.7% MoM in November.

Expecting a narrower decline for exports (-2.4% MoM) to 1.27m MT in Dec 2020. Data from cargo surveyors (Intertek & AmSpec) for 1st – 10th December have shown an average decline in exports of 6% MoM. We believe this is due to post-Diwali & Islamic holidays stockpiling activities tapering off. Having said that, we forecast the decline to narrow to 2.4% MoM by the end of December premised on our view that: (i) demand should pick up ahead of Christmas & New Year festivities, and that (ii) impact of India's CPO import duty reduction should kick in towards the later part of December. Exports to India could also rise further in January as some importers may have already pre-arranged for December shipments before the duty reduction.

December 2020 inventory to shrink (-5.6% MoM) to 1.48m MT. All-in, we expect total demand of 1.55m MT to outstrip total supply of 1.46m MT, leading to lower ending stocks of 1.48m MT in December. Moving forward, aside from the seasonal decline in production, the spotlight should be on how the current tight supply-demand dynamics could be impacted on the following considerations: (i) strength of production recovery in 2021, (ii) potential demand switch from palm oil to soybean oil during winter (Dec to Mar) due to soybean oil's lower solidification temperature, and (iii) Malaysian palm oil export tax structure beyond Dec 2020 (currently 0% until the end of Dec 2020). Note that demand concerns are exacerbated by the negative soybean oil-palm oil (SBO-CPO) spread of c.-USD55/MT (vs. 2-year average of c.+USD83/MT) which undercuts CPO's competitive edge. Soybean oil is now cheaper than palm oil, potentially impacting palm oil exports to price sensitive countries such as China and India.

Stay NEUTRAL on the plantation sector with an unchanged CY21 CPO price forecast of RM2,600/MT. We recommend being selective and slowly build positions in bashed down names like **HSPLANT (OP; TP: RM2.15)**, traded at steep 36%/25% discount in terms of PBV/PER valuation to its closest peer. For big caps, we like **KLK (OP; TP: RM26.00)**, traded at -1.0SD valuation (vs. big cap peers' -0.5SD).

11 December 2020

Exhibit 1: Palm Oil Statistics for November-2020 ('000 tonnes)

	Nov-20	Oct-20	Diff.	MoM %	Nov-19	YoY%
Opening Stks	1,574	1,722	-148	-8.6%	2,352	-33.1%
Production	1,492	1,725	-233	-13.5%	1,538	-3.0%
Imports	113	45	67	148.2%	75	50.9%
Total Supply	3,178	3,492	-314	-9.0%	3,965	-19.9%
Exports	1,303	1,674	-371	-22.2%	1,406	-7.3%
Dom Disapp	310	244	66	27.0%	304	1.9%
Total Demand	1,613	1,918	-305	-15.9%	1,710	-5.6%
End Stks	1,565	1,574	-9	-0.6%	2,255	-30.6%
Stock/Usage Ratio	8.1%	6.8%			11.0%	

Source: MPOB, Kenanga Research

Exhibit 2: Monthly Exports and YTD exports for November-2020 ('000 tonnes)

	Nov-20	Oct-20	Nov-19	MoM%	YoY%	11M20	11M19	YoY%
China	301	190	340	58.5%	-11.5%	2,583	2,245	15.0%
India	204	424	143	-51.9%	42.9%	2,185	4,287	-49.0%
EU	181	120	178	50.8%	1.8%	1,805	1,934	-6.6%
Pakistan	67	79	91	-15.0%	-26.6%	956	992	-3.7%
Turkey	11	48	27	-78.3%	-60.8%	535	630	-15.1%
US	3	58	16	-95.5%	-83.6%	494	510	-3.1%
Mozambique	41	19	6	113.0%	638.9%	288	155	85.4%
Egypt	12	21	1	-42.8%	1663.1%	147	40	268.6%
Others	485	716	601	-32.2%	-19.3%	6,751	6,271	7.7%
Total	1,303	1,674	1,401	-22.1%	-7.0%	15,744	17,064	-7.7%

Source: MPOB, Kenanga Research

Exhibit 3: December 2020 Production, Import, Export & Domestic disappearance forecast

	'000 MT	MoM chg
Opening stocks	1564.5	
Production	1376.2	-7.7%
Imports	83.3	-26.1%
Total supply	3024.0	
Exports	1272.0	-2.4%
Dom disappearance	274.8	-11.4%
Total demand	1546.8	
Ending stocks	1477.2	-5.6%
Stock/Usage Ratio	8.0%	

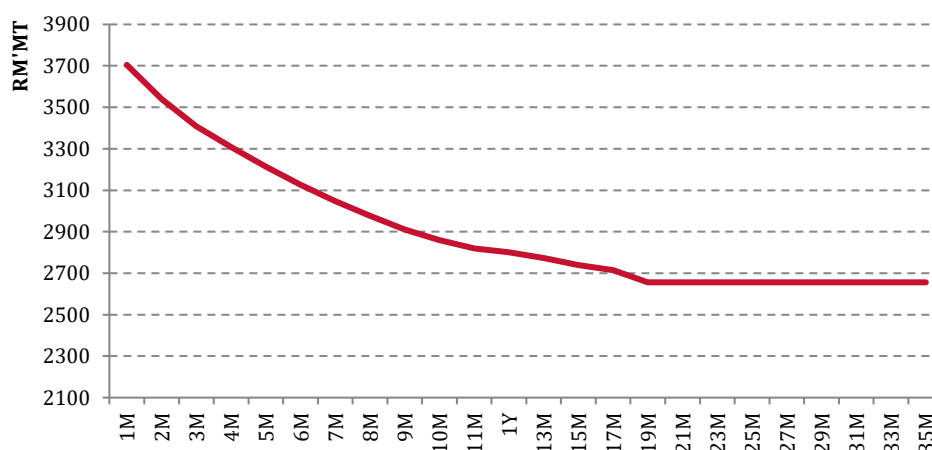
Source: MPOB, Kenanga Research

Exhibit 4: CPO Prices - Current & Forecast

	RM/MT
Last Price (09-December-20)	3,622
Year-to-date Average	2,727
2019 Average	2,129
	CY21 RM/MT
CPO Price Forecast	2,600
Revisions	+0%

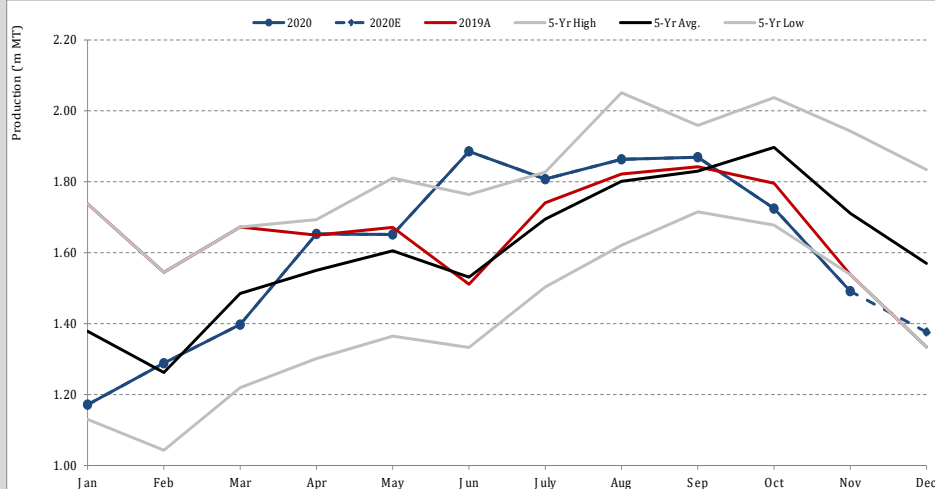
Source: Bloomberg, Kenanga Research

Exhibit 5: CPO Forward Curve as of 10-December-20



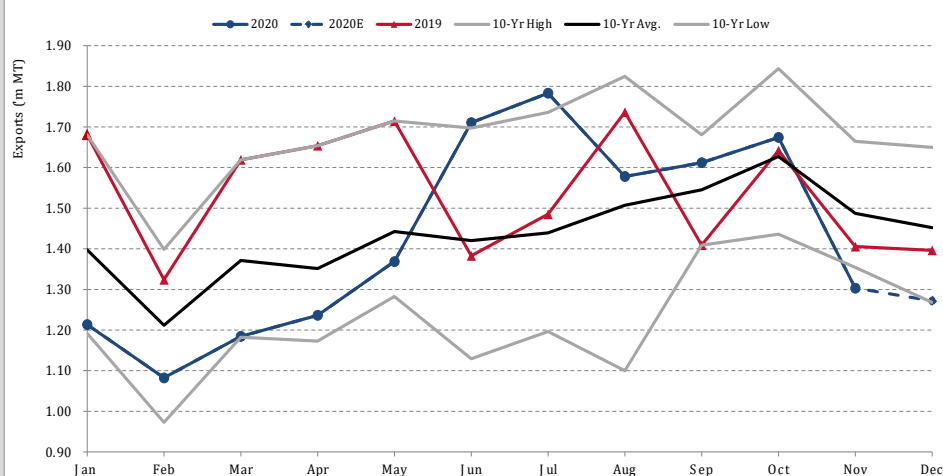
Source: Bloomberg, Kenanga Research

Exhibit 6: Malaysia 2020E CPO Production vs. 5-year Trends



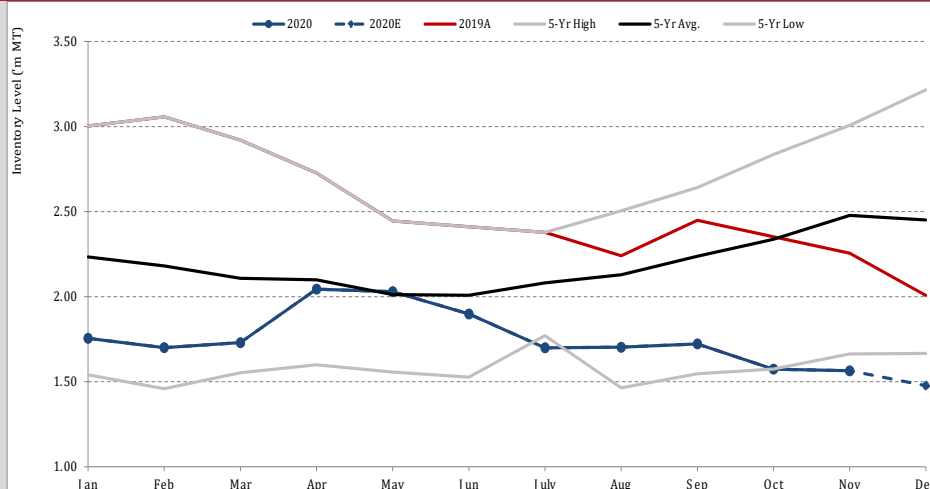
Source: MPOB, Kenanga Research

Exhibit 7: Malaysia 2020E CPO Exports vs. 10-year Trends



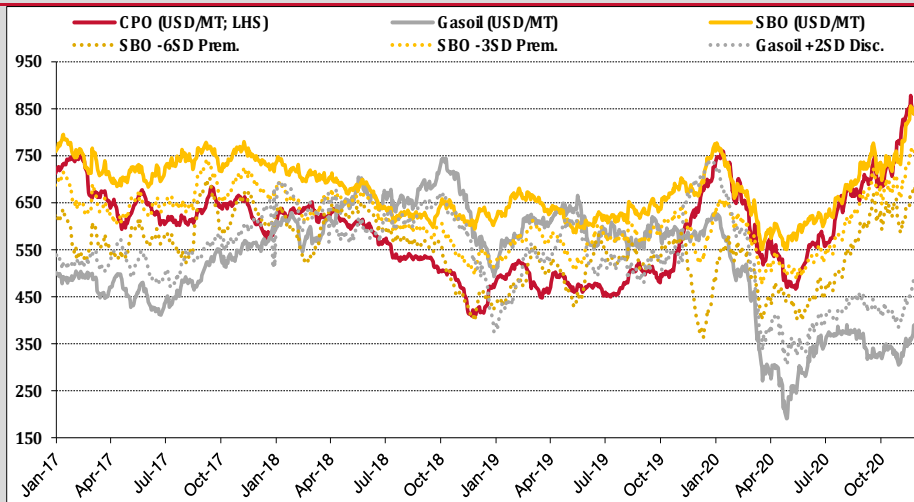
Source: MPOB, Kenanga Research

Exhibit 8: Malaysia 2020E CPO Inventory vs. 5-year Trends



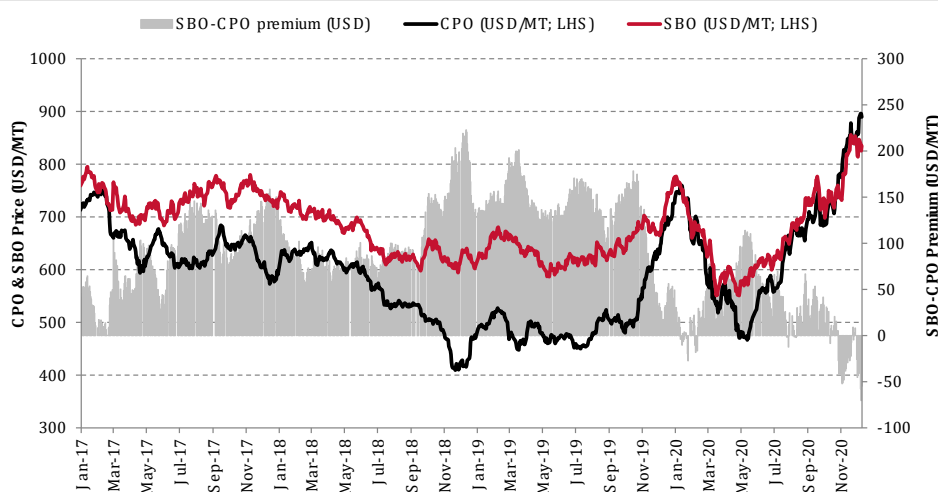
Source: MPOB, Kenanga Research

Exhibit 9: CPO vs. SBO Price and Gasoil Premium/Discount



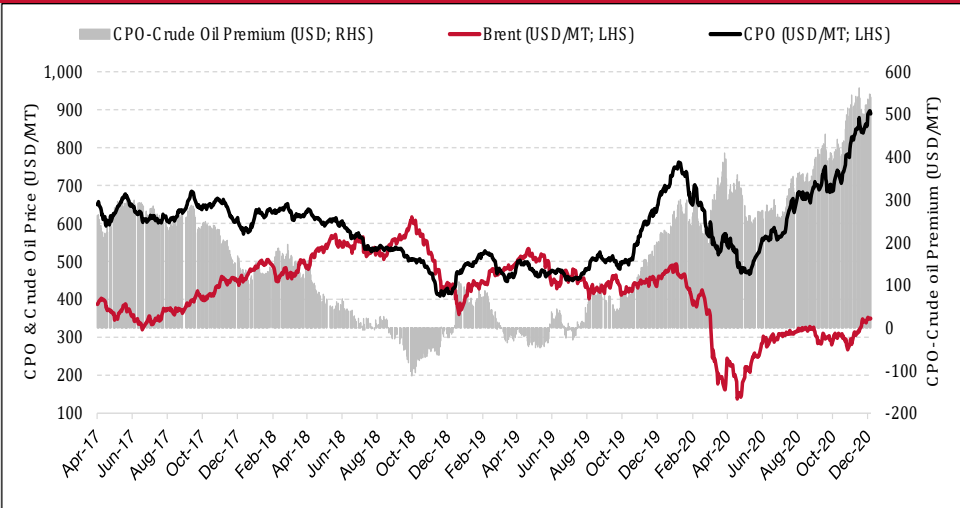
Source: Bloomberg, Kenanga Research

Exhibit 10: CPO vs. SBO Price and Historical Premiums



Source: Bloomberg, Kenanga Research

Exhibit 11: CPO vs. Crude Oil Price and Historical Premiums



Source: Bloomberg, Kenanga Research

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11 December 2020

Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
	(RM)	(RM'm)															
STOCKS UNDER COVERAGE																	
FGV HOLDINGS BHD	1.19	4,341.3	Y	12/2020	2.4%	8.2%	292.0%	26.8%	84.3	21.5	17.0	1.0	1.0	4.8%	1.7%	1.30	Accept Offer
GENTING PLANTATIONS BHD	9.86	8,846.4	Y	12/2020	-3.8%	12.6%	57.3%	39.8%	63.1	40.1	28.7	2.1	2.1	5.2%	1.4%	10.00	MP
HAP SENG PLANTATIONS HLDGS	1.80	1,439.4	Y	12/2020	4.0%	7.3%	194.0%	26.2%	68.5	23.3	18.5	0.9	0.8	4.9%	2.8%	2.15	OP
IJM PLANTATIONS BHD	1.87	1,646.7	N	03/2021	11.0%	7.1%	99.7%	13.2%	47.3	23.7	20.9	1.4	1.3	5.8%	1.7%	1.70	UP
IOI CORP BHD	4.45	27,885.0	Y	06/2021	15.1%	7.4%	18.8%	6.5%	36.8	33.2	26.3	3.0	2.8	10.4%	1.9%	4.95	OP
KUALA LUMPUR KEPONG BHD	23.66	25,516.8	Y	09/2021	9.4%	3.5%	23.1%	5.4%	33.6	27.3	25.9	2.3	2.3	8.4%	2.3%	26.00	OP
PPB GROUP BERHAD	18.74	26,659.5	Y	12/2020	-2.3%	14.7%	-1.3%	12.2%	23.1	23.4	20.9	1.2	1.2	5.3%	1.7%	18.90	MP
SIME DARBY PLANTATION BHD	5.06	34,836.0	Y	12/2020	10.9%	4.9%	304.5%	40.2%	216.4	53.5	38.2	2.6	2.5	4.8%	1.2%	5.15	MP
TA ANN HOLDINGS BERHAD	3.16	1,391.9	Y	12/2020	14.7%	5.1%	57.7%	7.9%	20.3	12.9	12.0	1.0	0.9	7.4%	3.2%	3.45	OP
TSH RESOURCES BHD	1.14	1,573.4	Y	12/2020	16.5%	1.9%	77.4%	-8.4%	38.8	21.9	23.9	1.0	1.0	5.0%	1.3%	1.10	MP
UNITED MALACCA BHD	5.25	1,101.3	Y	04/2021	6.4%	5.3%	238.1%	87.3%	N.A.	105.9	56.5	0.8	0.8	0.8%	1.5%	4.85	MP
Simple Average					7.7%	7.1%	123.8%	23.4%	63.2	35.2	26.2	1.6	1.5	5.7%	1.9%		

Source: Bloomberg, Kenanga Research

11 December 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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