

13 April 2021

Plantation

Inventory to Continue Its Climb

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NEUTRAL



Review of March figures:

March inventory of 1.45m MT (+11.2% MoM) came above both our/consensus' estimate due to strong Peninsular production. Our earlier belief has been confirmed – production downtrend in Sabah and Sarawak has reversed. Exports rose (+31.8% MoM) driven by India, Kenya and Muslim countries, ahead of Ramadan.

Our projection for April:

For April, we forecast: (i) production growth (+11.2% MoM), as all regions continue their growth trajectory, and (ii) exports to rise (+17.6% MoM), ahead of the Islamic festive season and potential stockpiling activities from China and India. All in, we expect total supply to outstrip total demand leading to higher ending stocks of 1.53m MT (+5.5% MoM).

Our thoughts on the sector:

Moving forward, the key factors to focus on are: (i) stockpiling activities by India and China, (ii) labour situation approaching peak season, (iii) supply-demand dynamics of soybean market, and (iv) biodiesel mandates fulfilment. **Stay NEUTRAL on the plantation sector with an unchanged CY21 CPO price forecast of RM3,000/MT.** MPOB data for March is bearish for prices while expectation of further rise in inventory levels is likely to cap the upside of CPO prices. We continue to believe the peak has occurred (if not, soon). However, valuations of planters under our coverage and the KLPLN index (both at -1.0SD from mean) seem to have somewhat priced in the negatives. Our upstream preferred stock pick to capitalise on the current strong CPO prices and yet able to soften the impact of subsequent price decline due to output growth is **HSPLANT (OP; TP: RM2.15)**. Our integrated pick with defensive overall margin against the CPO price variability is **KLK (OP; RM25.40)**.



March 2021 CPO inventory rose (+11.2% MoM) to c.1.45m metric tons (MT). This is above both our/consensus' estimate of 1.35m/1.32m MT (+3.4%/1.3% MoM). The deviation was mainly due to higher-than-expected production of 1.42m MT (+28.4% MoM) attributed to strong Peninsular production (+31% MoM). As expected, exports increased (+31.8% MoM) ahead of Ramadan, predominantly driven by India (+42% MoM), Kenya (+215% MoM) and Muslim countries such as: (i) Iran (+397% MoM), (ii) Pakistan (159% MoM), and (iii) Turkey (+261% MoM).

Forecasting April 2021 production to rise (+11.2% MoM) to 1.58m MT. Our earlier belief has been confirmed by March's production figures – the production downtrend in Sabah and

Sarawak has reversed and we expect growth in all regions (Peninsular, Sabah & Sarawak) to continue in April. Premised on these reasons, we forecast 11.2% MoM increase in overall production in April 2021.

Exports to rise (+17.6% MoM) to 1.39m MT in April 2021. Data from cargo surveyors for 1st – 10th April showed an average increase of 11%. We think exports to Muslim countries will continue to improve for the remainder of April, ahead of the Islamic festive season. Additionally, we think China and India could start replenishing their oils and fats inventories. We observed a rising pattern in Malaysia's palm oil exports to both countries when their oils and fats stock levels plummeted to multi-year lows in Apr-May 2020. Both countries' inventory levels are now (as of March 2021) even lower.

April 2021 inventory to climb (+5.5% MoM) to 1.53m MT. All-in, we expect total supply of 1.71m MT to outstrip total demand of 1.63m MT, leading to higher ending stocks of 1.53m MT in April. The key factors to focus on in the coming months are: (i) stockpiling activities by India and China, (ii) labour situation as we approach peak production season, (iii) supply-demand dynamics of soybean market, and (iv) biodiesel mandates fulfilment.

Stay NEUTRAL on the plantation sector with an unchanged CY21 CPO price forecast of RM3,000/MT. The bearish MPOB data and expectations of further rise in inventory levels should weigh on CPO prices. We continue to believe that the peak has occurred (if not, soon). That said, valuations of planters under our coverage and the KLPLN index (both at -1.0SD from mean) seem to have somewhat priced in the negatives. Our upstream preferred stock pick to capitalise on the current strong CPO price and yet able to soften the impact of subsequent price decline due to output growth is **HSPLANT (OP; TP: RM2.15)**. Our integrated pick with defensive overall margin against the CPO price variability is **KLK (OP; RM25.40)**.

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Exhibit 1: Monthly Palm Oil Statistics ('000 tonnes)

	Mar-21	Feb-21	Diff.	MoM %	Mar-20	YoY%
Opening Stks	1,301	1,325	-24	-1.8%	1,700	-23.5%
Production	1,423	1,108	315	28.4%	1,397	1.9%
Imports	137	87	50	57.3%	75	82.5%
Total Supply	2,861	2,520	341	13.5%	3,173	-9.8%
Exports	1,182	897	285	31.8%	1,185	-0.2%
Dom Disapp	233	323	-89	-27.7%	259	-9.7%
Total Demand	1,416	1,219	196	16.1%	1,443	-1.9%
End Stks	1,446	1,301	145	11.2%	1,730	-16.4%
Stock/Usage Ratio	8.5%	8.9%			10.0%	

Source: MPOB, Kenanga Research

Exhibit 2: Monthly Exports and YTD exports ('000 tonnes)

	Mar-21	Feb-21	Mar-20	MoM%	YoY%	3M21	3M20	YoY%
China	73	84	148	-13.4%	-50.9%	270	482	-43.9%
India	230	141	11	63.0%	2030.0%	515	79	552.9%
EU	158	108	195	46.1%	-19.2%	363	530	-31.5%
Pakistan	61	23	67	171.4%	-8.5%	126	285	-55.9%
Turkey	82	23	59	260.7%	39.5%	153	153	0.4%
US	10	21	50	-49.9%	-79.0%	76	162	-53.1%
Mozambique	18	23	22	-23.8%	-19.3%	71	66	7.4%
Egypt	0	19	11	-97.6%	-95.8%	23	28	-17.5%
Others	549	455	622	20.6%	-11.7%	1,429	1,696	-15.8%
Total	1,182	897	1,185	31.8%	-0.2%	3,026	3,481	-13.1%

Source: MPOB, Kenanga Research

Exhibit 3: April-2021 Production, Import, Export & Domestic disappearance forecast

	'000 MT	MoM chg
Opening stocks	1446.0	
Production	1582.9	11.2%
Imports	130.0	-5.4%
Total supply	3158.8	
Exports	1390.1	17.6%
Dom disappearance	242.8	4.0%
Total demand	1632.9	
Ending stocks	1525.9	5.5%
Stock/Usage Ratio	7.8%	

Source: MPOB, Kenanga Research

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Exhibit 4: India's Import Duty Policy Changes

Before	Crude Palm Oil	Soybean Oil	Sunflower Oil
Basic Custom Duty	27.50%	35.00%	35.00%
Surcharge (10%)	2.75%	3.50%	3.50%
Total	30.25%	38.50%	38.50%
CPO Duty Advantage		8.25%	8.25%

After	Crude Palm Oil	Soybean Oil	Sunflower Oil
Basic Custom Duty	15.00%	15.00%	15.00%
Cess	17.50%	20.00%	20.00%
	32.50%	35.00%	35.00%
Surcharge (10%)	3.25%	3.50%	3.50%
Total	35.75%	38.50%	38.50%
CPO Duty Advantage		2.75%	2.75%

Source: Bloomberg, Kenanga Research

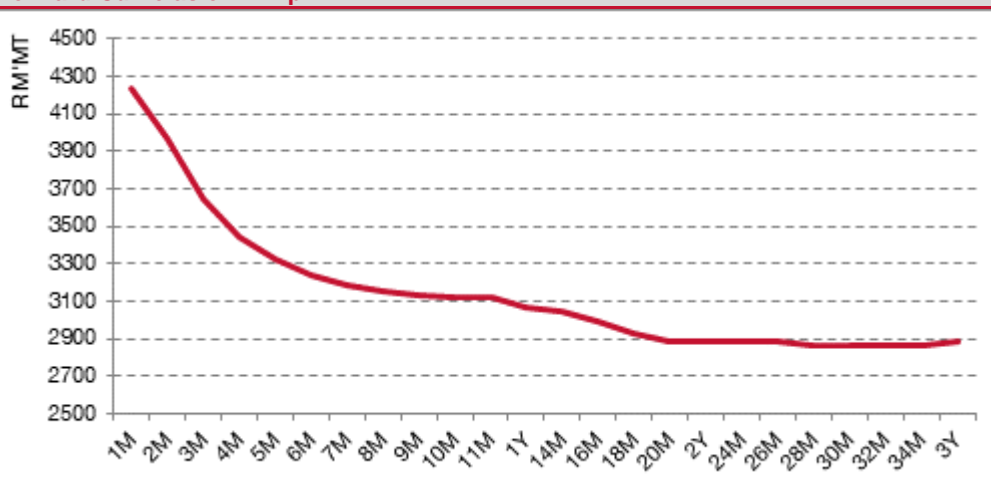
Exhibit 5: CPO Prices - Current & Forecast

	RM/MT
Last Price (09-April-21)	4,272
Year-to-date Average	3,952
2020 Average	2,781

	CY21 RM/MT
CPO Price Forecast	3,000
Revisions	+0%

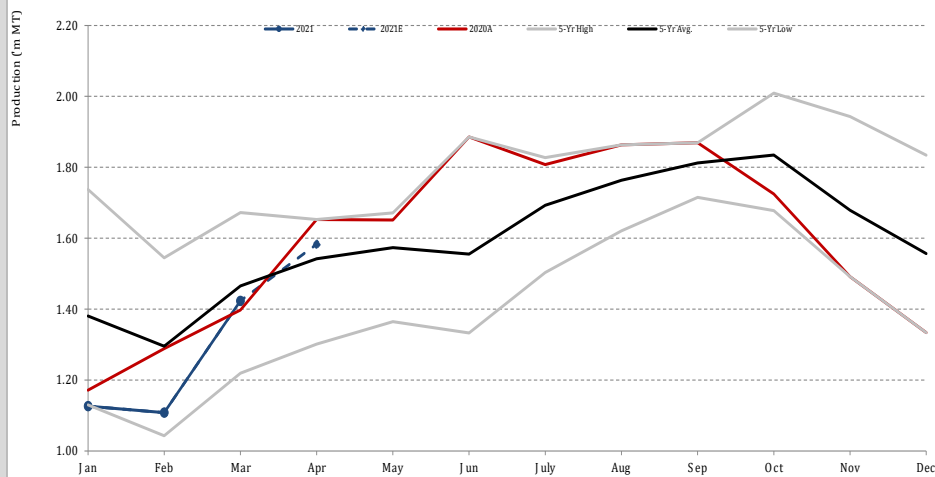
Source: Bloomberg, Kenanga Research

Exhibit 6: CPO Forward Curve as of 12-April-21



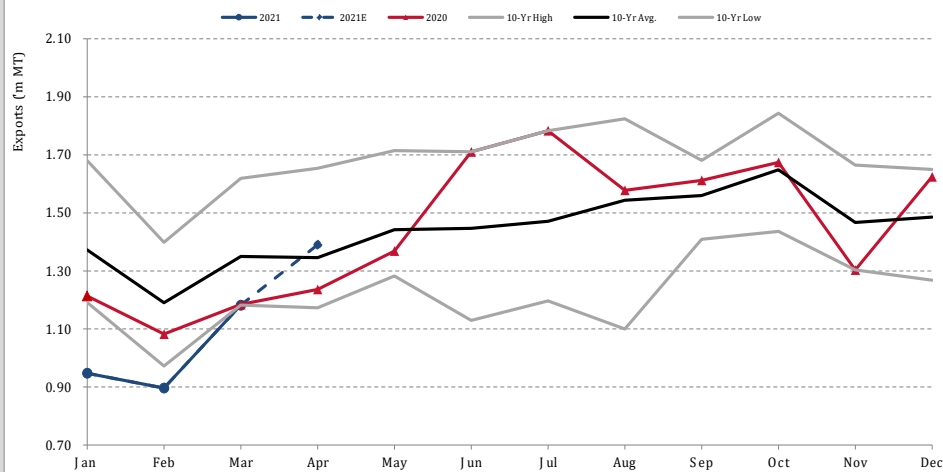
Source: Bloomberg, Kenanga Research

Exhibit 7: Malaysia 2021E CPO Production vs. 5-year Trends



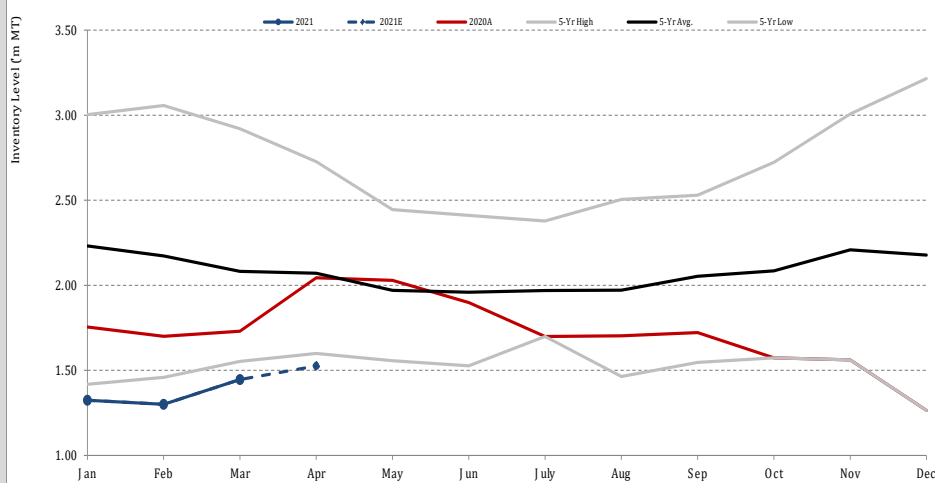
Source: MPOB, Kenanga Research

Exhibit 8: Malaysia 2021E CPO Exports vs. 10-year Trends



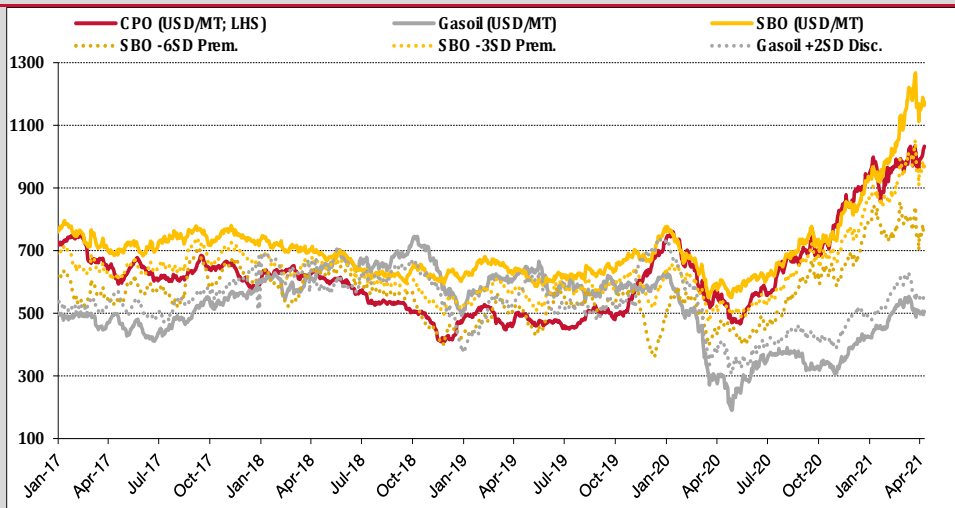
Source: MPOB, Kenanga Research

Exhibit 9: Malaysia 2021E CPO Inventory vs. 5-year Trends



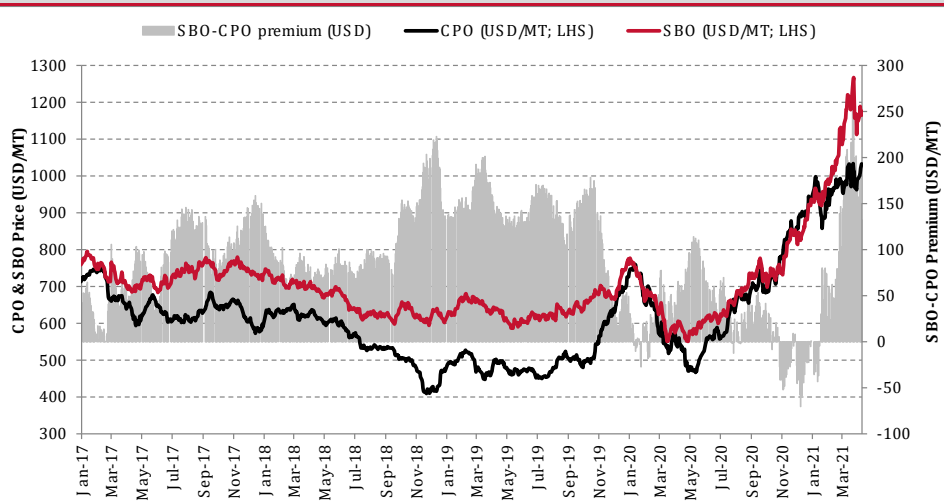
Source: MPOB, Kenanga Research

Exhibit 10: CPO vs. SBO Price and Gasoil Premium/Discount



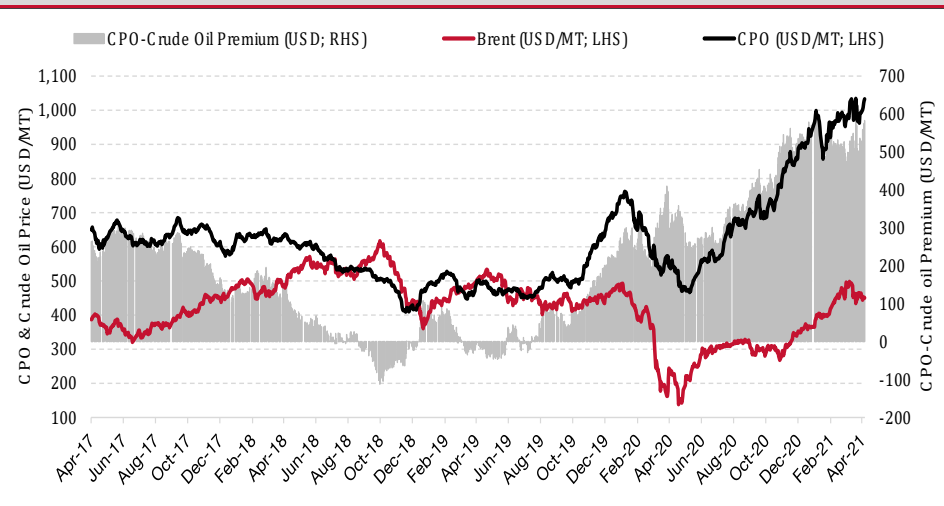
Source: Bloomberg, Kenanga Research

Exhibit 11: CPO vs. SBO Price and Historical Premiums



Source: Bloomberg, Kenanga Research

Exhibit 12: CPO vs. Crude Oil Price and Historical Premiums



Source: Bloomberg, Kenanga Research

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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	1.38	5,034.4	Y	12/2021	5.5%	1.7%	18.3%	12.2%	97.7	24.9	19.7	1.2	1.2	6.7%	1.4%	1.30	MP
GENTING PLANTATIONS BHD	9.01	8,083.8	Y	12/2021	-1.7%	5.5%	31.2%	9.1%	33.9	25.8	23.7	1.6	1.6	6.3%	2.1%	8.95	MP
HAP SENG PLANTATIONS HLDGS	1.83	1,463.4	Y	12/2021	8.4%	4.2%	39.2%	6.5%	21.1	15.2	14.3	0.9	0.8	5.6%	3.8%	2.15	OP
IJM PLANTATIONS BHD	1.75	1,541.0	N	03/2021	24.9%	3.0%	155.9%	-0.2%	44.3	17.3	17.3	1.3	1.2	7.3%	2.3%	1.80	MP
IOI CORP BHD	4.18	26,176.3	Y	06/2021	24.2%	6.2%	23.8%	5.6%	34.5	31.1	23.8	2.8	2.7	10.8%	2.0%	4.55	MP
KUALA LUMPUR KEPONG BHD	22.50	24,267.5	Y	09/2021	11.5%	4.4%	35.6%	9.7%	31.9	23.5	21.5	2.2	2.1	9.2%	2.4%	25.40	OP
PPB GROUP BERHAD	18.64	26,517.3	Y	12/2021	18.4%	11.1%	3.3%	7.9%	20.3	19.6	18.2	1.2	1.1	6.0%	2.1%	20.70	OP
SIME DARBY PLANTATION BHD	4.53	31,187.1	Y	12/2021	14.1%	5.0%	80.5%	5.2%	37.2	20.6	19.6	2.3	2.2	10.8%	2.2%	5.50	OP
TA ANN HOLDINGS BERHAD	2.84	1,250.9	Y	12/2021	6.2%	3.2%	35.0%	10.5%	19.7	14.6	13.2	0.9	0.8	5.8%	3.5%	3.00	MP
TSH RESOURCES BHD	1.06	1,463.0	Y	12/2021	19.8%	1.4%	7.5%	11.3%	20.3	18.9	17.0	1.0	0.9	7.8%	2.4%	1.00	UP
UNITED MALACCA BHD	5.20	1,090.8	Y	04/2021	38.8%	9.1%	72.9%	60.6%	N.A.	32.1	20.0	0.8	0.8	2.6%	1.7%	5.30	MP
Simple Average					15.5%	5.0%	45.7%	12.6%	36.1	22.2	18.9	1.5	1.4	7.2%	2.4%		

Source: Bloomberg, Kenanga Research

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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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Published and printed by:

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