

13 September 2021

## Plantation

### Highest Inventory Level Since June 2020

By **Adrian Kok** | [adrian.kok@kenanga.com.my](mailto:adrian.kok@kenanga.com.my)

**NEUTRAL**



#### Review of August figures:

August inventory of 1.87m MT (+25.3% MoM) came above both our/consensus' estimates. Deviation was mainly due to lower-than-expected exports from: (i) China (-16% MoM), (ii) EU (-49% MoM), (iii) Turkey (-33% MoM), and Vietnam (-58% MoM). Production came in at 1.70m MT (+11.8% MoM) against our 1.63m MT (+7.0% MoM) estimate.

#### Our projection for September:

For September, we forecast: (i) production to continue its uptrend (+5.7% MoM), and (ii) exports to surge (+34.2% MoM) on inventory replenishment activities from China and India, as well as a pickup in EU. Both China and India's palm oil inventory level remains relatively low. Data from cargo surveyors for 1<sup>st</sup> – 10<sup>th</sup> Sep have shown an average 56% MoM increase. All in, we expect total supply to outstrip total demand, leading to higher inventory of 1.91m MT (+2.0% MoM).

#### Our thoughts on the sector:

August MPOB data is bearish for CPO prices and we expect CPO prices to trend lower, especially with narrowing SBO-CPO premium. ESG concerns continue to weigh on the sector, but valuations of planters under our coverage and KLPLN index (-1.5SD from mean) seem to have priced in the bulk of the negatives. Moving forward, the prevailing key factors remain: (i) labour situation and movement restriction developments (Malaysia's transition to reopening/recovery), (ii) peak season production strength, (iii) stockpiling activities by India and China, (iv) supply-demand dynamic of soybean market, and (v) biodiesel mandates. **Stay NEUTRAL on the plantation sector with an unchanged CY21 CPO price forecast of RM3,700/MT.** Integrated players like **KLK (OP; TP: RM23.60)** with defensive overall margin against CPO price variability, and **GENP (OP; TP: RM8.40)** with a laggard and reopening/recovery angle appeal to us.



**August 2021 CPO inventory surged (+25.3% MoM) to c.1.87m metric tons (MT).** This is above both our/consensus' estimates of 1.49m/1.74m MT (-0.5%/+16.3% MoM), respectively. The deviation from ours is due to: (i) lower-than-expected export (-17.1% MoM) against our +3.7% MoM estimate, mainly from weaker: (i) China (-16% MoM), (ii) EU (-49% MoM), (iii) Turkey (-33% MoM), and Vietnam (-58% MoM). Production came in at 1.70m MT (+11.8% MoM) against our 1.63m MT (+7.0% MoM) estimate.

**Forecasting September 2021 production to rise further (+5.7% MoM) to 1.80m MT.** We expect continued growth from all regions (Peninsular and East Malaysia), with production likely to peak in Sep-Oct. Majority of planters concur with our view.

**Exports to jump (+34.20% MoM) to 1.56m MT in September 2021.** Data from cargo surveyors for 1<sup>st</sup> – 10<sup>th</sup> September showed an average increase of 56% MoM. We believe this is led by inventory replenishment activities from China and India, as well as a pickup in EU. Both China and India's palm oil inventory level remains relatively low.

**September 2021 inventory to creep higher (+2.0% MoM) to 1.91m MT** as total supply of ~1.89m MT outstrips total demand of ~1.85m MT. The key factors to continue focusing on in the coming months are: (i) labour situation and movement restriction developments given the Malaysian government's transition to reopening/recovery, (ii) peak season production strength, (iii) stockpiling activities by India and China, (iv) supply-demand dynamics of soybean market, and (v) biodiesel mandates fulfilment.

**Stay NEUTRAL on the plantation sector with CY21 CPO price forecast of RM3,700/MT.** The August MPOB data is bearish for CPO prices. We expect CPO prices to trend lower from current elevated levels, especially with narrowing SBO premium to CPO of USD124/MT (vs. Aug-2021 average of USD281/MT). Meanwhile, ESG concerns continue to weigh on the sector, but valuations of planters under our coverage and KLPLN index (-1.5SD from mean) seem to have priced in the bulk of the negatives. Our integrated pick with defensive overall margin against CPO price variability is **KLK (OP; RM23.60)**. We think **GENP (OP; RM8.40)** offers a laggard angle, with share price up merely 12% (vs. SIMEPLT's +20%), while providing reopening/recovery prospects through its premium outlets.

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

	Aug-21	Jul-21	Diff.	MoM %	Aug-20	YoY%
<b>Opening Stks</b>	<b>1,496</b>	<b>1,614</b>	<b>-118</b>	<b>-7.3%</b>	<b>1,699</b>	<b>-11.9%</b>
<b>Production</b>	<b>1,702</b>	<b>1,523</b>	<b>180</b>	<b>11.8%</b>	<b>1,863</b>	<b>-8.6%</b>
Imports	91	54	37	68.1%	32	182.9%
<b>Total Supply</b>	<b>3,290</b>	<b>3,191</b>	<b>99</b>	<b>3.1%</b>	<b>3,595</b>	<b>-8.5%</b>
Exports	1,163	1,402	-239	-17.1%	1,578	-26.3%
Dom Disapp	253	293	-40	-13.7%	314	-19.5%
<b>Total Demand</b>	<b>1,416</b>	<b>1,695</b>	<b>-279</b>	<b>-16.5%</b>	<b>1,892</b>	<b>-25.2%</b>
<b>End Stks</b>	<b>1,875</b>	<b>1,496</b>	<b>378</b>	<b>25.3%</b>	<b>1,703</b>	<b>10.1%</b>
<b>Stock/Usage Ratio</b>	<b>11.0%</b>	<b>7.4%</b>			<b>7.5%</b>	

Source: MPOB, Kenanga Research

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

	Aug-21	Jul-21	Aug-20	MoM%	YoY%	8M21	8M20	YoY%
China	137	164	295	-16.1%	-53.4%	1,040	1,842	-43.5%
India	303	225	330	34.8%	-8.0%	2,064	1,182	74.6%
EU	108	213	159	-49.3%	-32.2%	1,073	1,348	-20.4%
Pakistan	52	52	60	1.5%	-12.3%	409	751	-45.6%
Turkey	54	81	25	-33.4%	115.2%	435	432	0.7%
US	24	32	42	-25.5%	-42.7%	187	387	-51.6%
Mozambique	8	30	52	-71.5%	-83.7%	167	197	-15.6%
Egypt	16	28	4	-41.2%	272.8%	102	98	4.4%
Others	459	578	611	-20.6%	-24.9%	4,162	4,917	-15.4%
<b>Total</b>	<b>1,163</b>	<b>1,402</b>	<b>1,578</b>	<b>-17.1%</b>	<b>-26.3%</b>	<b>9,639</b>	<b>11,154</b>	<b>-13.6%</b>

Source: MPOB, Kenanga Research

Exhibit 3: September-2021 Production, Import, Export &amp; Domestic disappearance forecast

	'000 MT	MoM chg
<b>Opening stocks</b>	<b>1874.7</b>	
Production	1799.2	5.7%
Imports	91.0	-0.4%
<b>Total supply</b>	<b>3765.0</b>	
Exports	1560.5	34.2%
Dom disappearance	292.4	15.7%
<b>Total demand</b>	<b>1852.8</b>	
<b>Ending stocks</b>	<b>1912.1</b>	<b>2.0%</b>
Stock/Usage Ratio	8.6%	

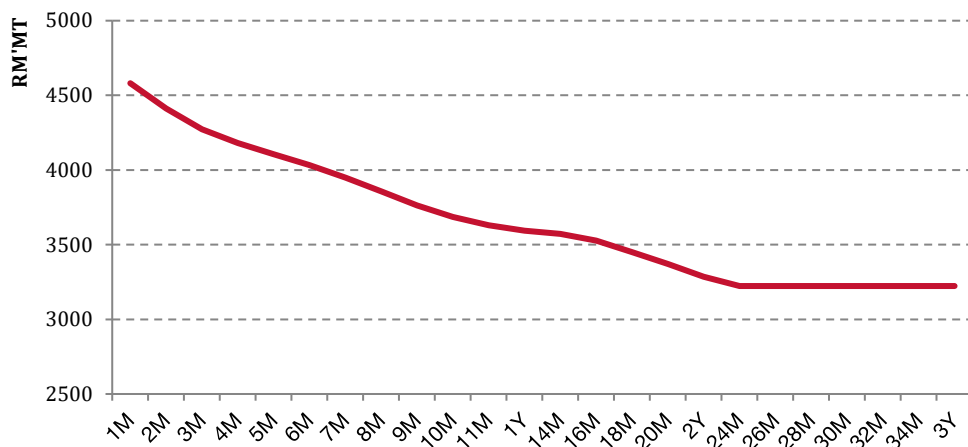
Source: MPOB, Kenanga Research

Exhibit 4: CPO Prices - Current & Forecast

	<b>RM/MT</b>
<b>Last Price (09-September-21)</b>	<b>4,617</b>
Year-to-date Average	4,154
2020 Average	2,781
	<b>CY21</b>
	<b>RM/MT</b>
<b>CPO Price Forecast</b>	<b>3,700</b>
Revisions	+0%

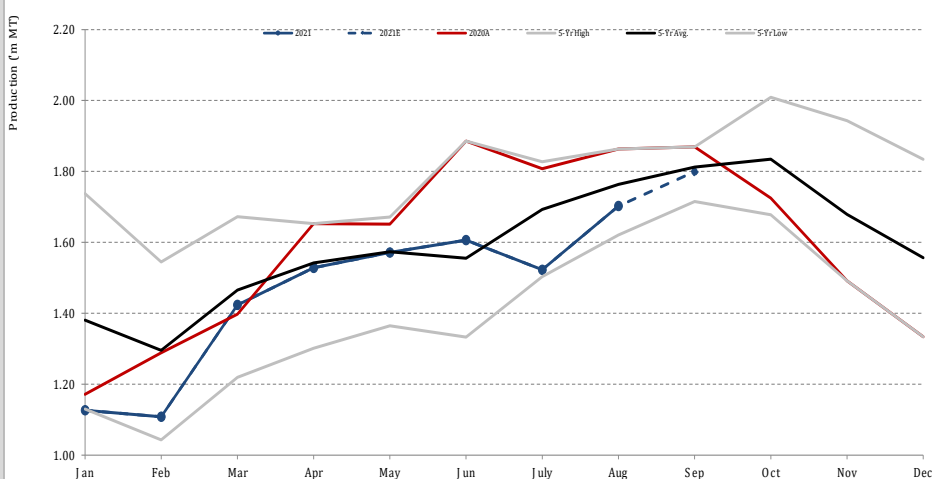
Source: Bloomberg, Kenanga Research

Exhibit 5: CPO Forward Curve as of 10-September-21



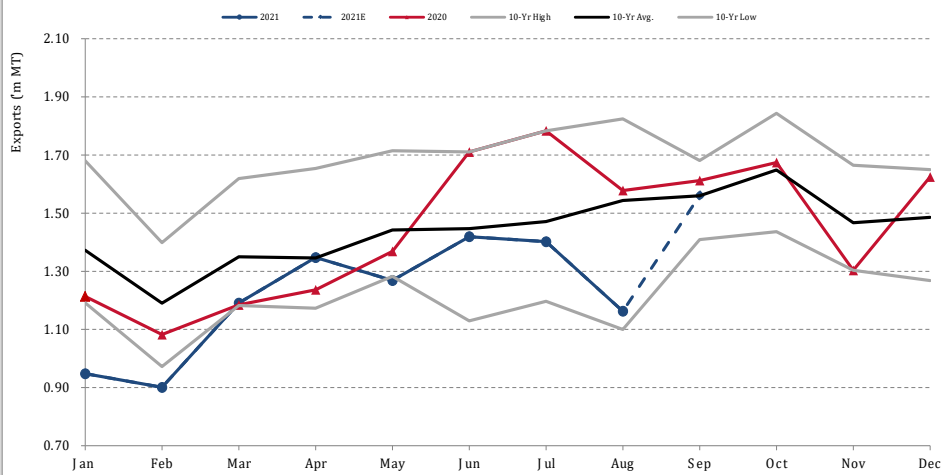
Source: Bloomberg, Kenanga Research

Exhibit 6: Malaysia 2021E CPO Production vs. 5-year Trends



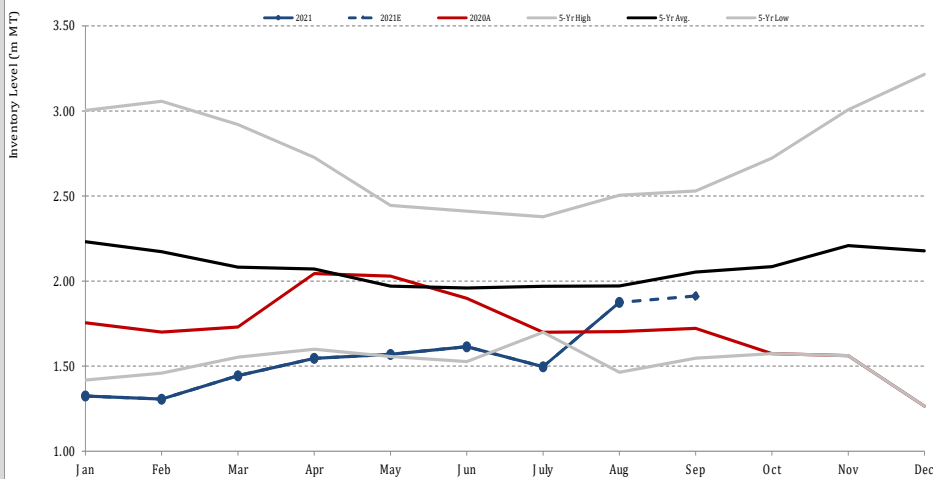
Source: MPOB, Kenanga Research

Exhibit 7: Malaysia 2021E CPO Exports vs. 10-year Trends



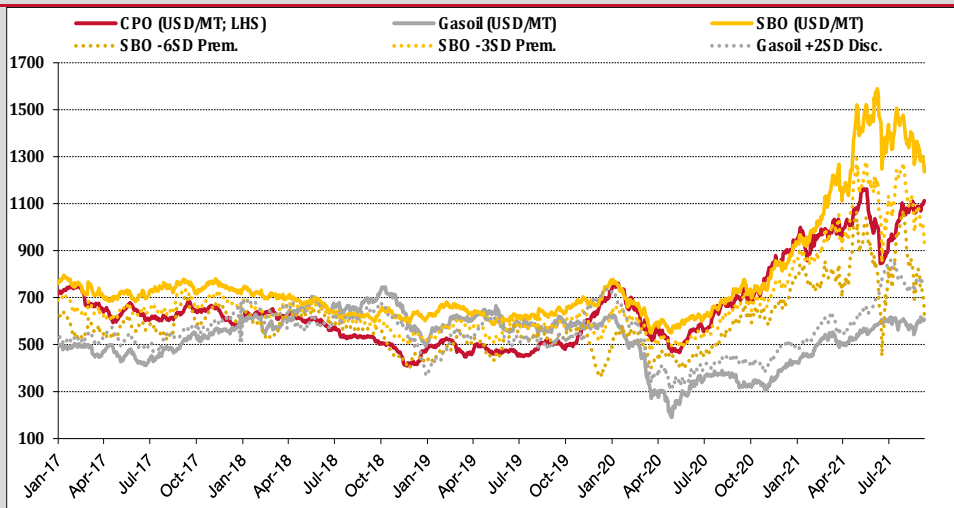
Source: MPOB, Kenanga Research

Exhibit 8: Malaysia 2021E CPO Inventory vs. 5-year Trends



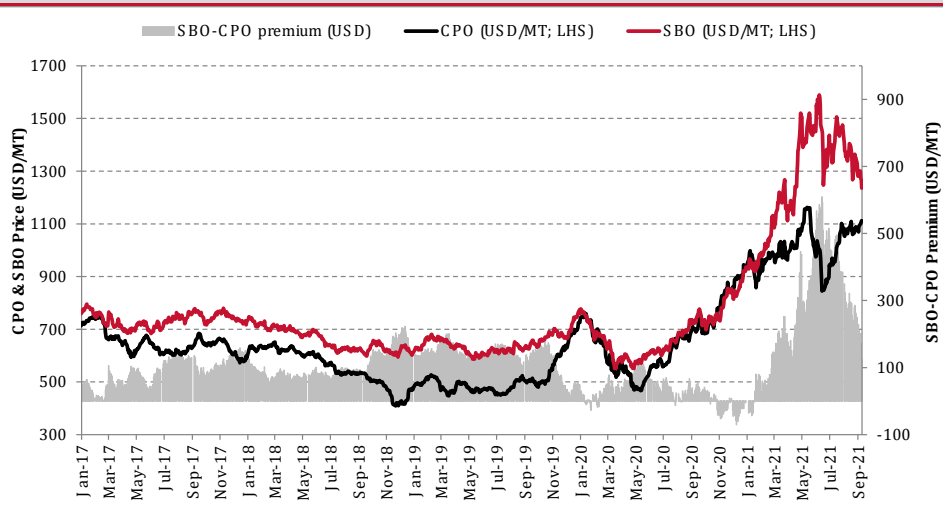
Source: MPOB, Kenanga Research

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



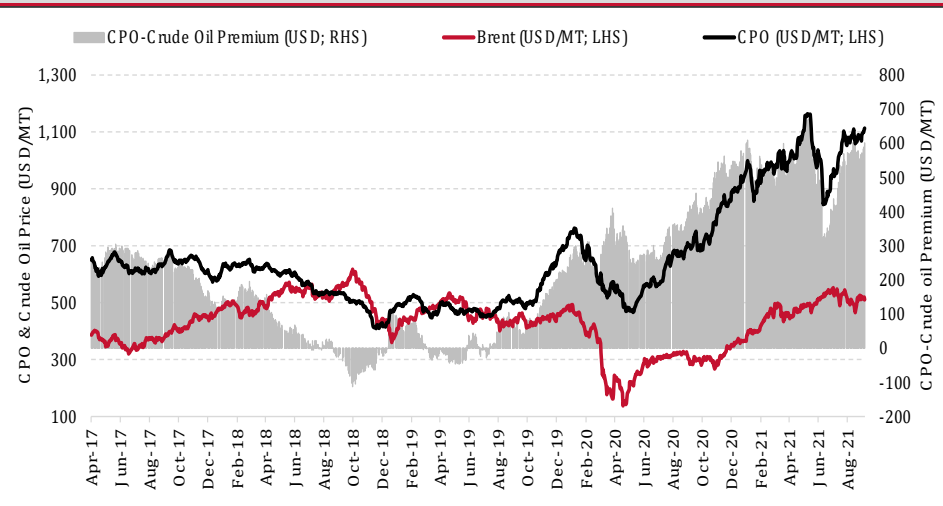
Source: Bloomberg, Kenanga Research

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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## 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)															
<b>STOCKS UNDER COVERAGE</b>																	
FGV HOLDINGS BHD	1.40	5,107.4	Y	12/2021	17.4%	-2.9%	30.7%	1.9%	20.7	15.8	15.5	1.2	1.2	7.5%	3.9%	1.45	MP
GENTING PLANTATIONS BHD	7.23	6,486.7	Y	12/2021	11.8%	-4.9%	57.8%	-3.1%	27.2	17.2	17.8	1.3	1.3	7.5%	3.6%	8.40	OP
HAP SENG PLANTATIONS HLDGS	2.03	1,623.4	Y	12/2021	45.7%	-10.7%	117.5%	-18.3%	23.4	10.8	13.2	0.9	0.9	8.6%	5.4%	2.30	OP
IJM PLANTATIONS BHD	3.10	2,729.8	N	03/2022	16.5%	-3.7%	53.3%	-20.6%	22.2	14.5	18.3	1.9	1.8	12.6%	2.9%	3.10	Accept Offer
IOI CORP BHD	3.91	24,370.6	Y	06/2022	5.1%	-5.8%	11.6%	-10.6%	29.1	20.4	22.8	2.4	2.3	11.5%	2.3%	4.05	MP
KUALA LUMPUR KEPONG BHD	20.98	22,614.1	Y	09/2021	22.4%	-2.3%	83.0%	-8.5%	29.8	16.3	17.8	2.1	1.9	12.2%	2.6%	23.60	OP
PPB GROUP BERHAD	18.30	26,033.6	Y	12/2021	18.4%	11.1%	3.7%	7.9%	19.9	19.2	17.8	1.2	1.1	6.1%	2.2%	19.40	MP
SIME DARBY PLANTATION BHD	3.91	27,040.4	Y	12/2021	30.9%	-6.0%	165.3%	-20.2%	32.1	12.1	15.2	2.0	1.9	15.8%	4.9%	4.60	OP
TA ANN HOLDINGS BERHAD	3.00	1,321.4	Y	12/2021	33.1%	-12.6%	178.1%	-25.6%	20.9	7.5	10.1	0.9	0.9	12.0%	5.3%	2.85	MP
TSH RESOURCES BHD	1.14	1,573.4	Y	12/2021	64.2%	-10.8%	92.2%	-27.1%	21.8	11.4	15.6	1.0	1.0	9.2%	2.6%	1.17	MP
UNITED MALACCA BHD	5.12	1,074.0	Y	04/2022	2.6%	4.8%	42.9%	2.9%	37.8	26.5	25.7	0.8	0.8	3.1%	2.0%	5.20	MP
<b>Simple Average</b>					<b>24.4%</b>	<b>-4.0%</b>	<b>76.0%</b>	<b>-11.0%</b>	<b>25.9</b>	<b>15.6</b>	<b>17.3</b>	<b>1.4</b>	<b>1.4</b>	<b>9.6%</b>	<b>3.4%</b>		

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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

