

12 October 2021

Plantation

September Inventory Down 7.0% MoM

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NEUTRAL



Review of September figures:

September inventory of 1.75m MT (-7.0% MoM) came below both our/consensus' estimates. The deviation was mainly due to lower-than-expected production, likely due to trees taking a breather. Exports rose (+36.8% MoM) mainly due to: (i) China (+70% MoM), (ii) India (+23% MoM), and (iii) EU (+26% MoM).

Our projection for October:

For October, we forecast: (i) production to continue its uptrend (+4.2% MoM) with peak in Oct-Nov, and (ii) exports to moderate (-6.2% MoM). While we expect continued strength from China, demand from countries in the Middle East and Africa could moderate. India's recent edible oils stock limit should also be a drag. Data from cargo surveyors for 1st – 10th Oct have shown an average 10% MoM decline. All in, we expect total supply to outstrip total demand, leading to higher inventory of 1.80m MT (+3.1% MoM).

Our thoughts on the sector:

September MPOB data is bullish for CPO prices, but could be eclipsed by signs of weaker demand ahead (cargo surveyor data & India's recent edible oils stock limit). Moving forward, the prevailing key factors remain: (i) speed of foreign workers intake to address labour situation, (ii) production strength, (iii) Chinese and Indian demand, (iv) ESG developments, and (v) supply-demand dynamics of other edible oils. **Stay NEUTRAL on the plantation sector with an unchanged CY21 CPO price forecast of RM3,700/MT.** Our integrated pick with defensive overall margin against CPO price variability is **KLK (OP; TP: RM23.60).**



September 2021 CPO inventory fell (-7.0% MoM) to c.1.75m metric tons (MT). This is below both our/consensus' estimates of 1.92m/1.87m MT (+2.0%/-0.5% MoM), respectively. The deviation is mainly from lower-than-expected production of 1.70m MT (-0.4% MoM) vs. our/consensus' +5.2%/2.3% MoM expectation, likely due to trees taking a breather. As expected, exports rose (+36.8% MoM) mainly due to: (i) China (+70% MoM), (ii) India (+23% MoM), and (iii) EU (+26% MoM).

Forecasting October 2021 production to rise further (+4.2% MoM) to 1.78m MT with growth likely from Peninsular and Sabah. We now expect production to peak in Oct-Nov, in line with majority of planters' views.

Exports to moderate (-6.2% MoM) to 1.50m MT in October 2021. While we expect continued strength from China, we think demand from countries in the Middle East and Africa could moderate. India's recent edible oils stock limit (until March 2022) will likely result in reduction of Malaysia and Indonesia's palm oil exports to the country. Data from cargo surveyors for 1st – 10th October showed an average decrease of 10% MoM.

October 2021 inventory to resume uptrend (+3.1% MoM) to 1.80m MT as total supply of ~1.85m MT outstrips total demand of ~1.80m MT. The key factors to continue focusing on in the coming months are: (i) speed of foreign workers intake to address labour situation, (ii) production strength, (iii) Chinese and Indian demand, (iv) ESG developments, and (v) supply-demand dynamics of other edible oils.

Stay NEUTRAL on the plantation sector with CY21 CPO price forecast of RM3,700/MT. The September MPOB data is bullish for CPO prices. However, it could be eclipsed by signs of weaker demand (cargo surveyor data & India's recent edible oils stock limit). Our integrated pick with defensive overall margin against CPO price variability is **KLK (OP; TP: RM23.60).**

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

	Sep-21	Aug-21	Diff.	MoM %	Sep-20	YoY%
Opening Stocks	1,878	1,498	380	25.4%	1,703	10.3%
Production	1,704	1,710	-7	-0.4%	1,869	-8.9%
Imports	75	91	-16	-18.0%	48	55.3%
Total Supply	3,657	3,300	357	10.8%	3,620	1.0%
Exports	1,597	1,167	430	36.8%	1,612	-0.9%
Domestic Disappearance	313	255	58	22.8%	286	9.2%
Total Demand	1,910	1,422	488	34.3%	1,899	0.6%
End Stks	1,747	1,878	-131	-7.0%	1,722	1.4%
Stock/Usage Ratio	7.6%	11.0%			7.6%	

Source: MPOB, Kenanga Research

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

	Sep-21	Aug-21	Sep-20	MoM%	YoY%	9M21	9M20	YoY%
China	234	137	250	70.5%	-6.2%	1,275	2,092	-39.1%
India	373	303	375	23.1%	-0.3%	2,438	1,557	56.6%
EU	136	108	156	25.8%	-13.1%	1,209	1,504	-19.7%
Pakistan	65	52	59	24.1%	10.0%	474	810	-41.5%
Turkey	57	54	44	5.7%	28.5%	492	476	3.3%
US	30	24	47	26.2%	-35.0%	218	434	-49.8%
Mozambique	44	8	31	417.5%	43.4%	211	228	-7.7%
Egypt	37	16	17	127.5%	123.0%	139	115	21.6%
Others	621	464	634	33.9%	-2.1%	4,787	5,551	-13.8%
Total	1,597	1,167	1,612	36.8%	-0.9%	11,241	12,767	-11.9%

Source: MPOB, Kenanga Research

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

	'000 MT	MoM chg
Opening stocks	1746.5	
Production	1775.4	4.2%
Imports	73.6	-1.9%
Total supply	3595.6	
Exports	1498.4	-6.2%
Domestic disappearance	297.4	-4.9%
Total demand	1795.8	
Ending stocks	1799.8	3.1%
Stock/Usage Ratio	8.4%	

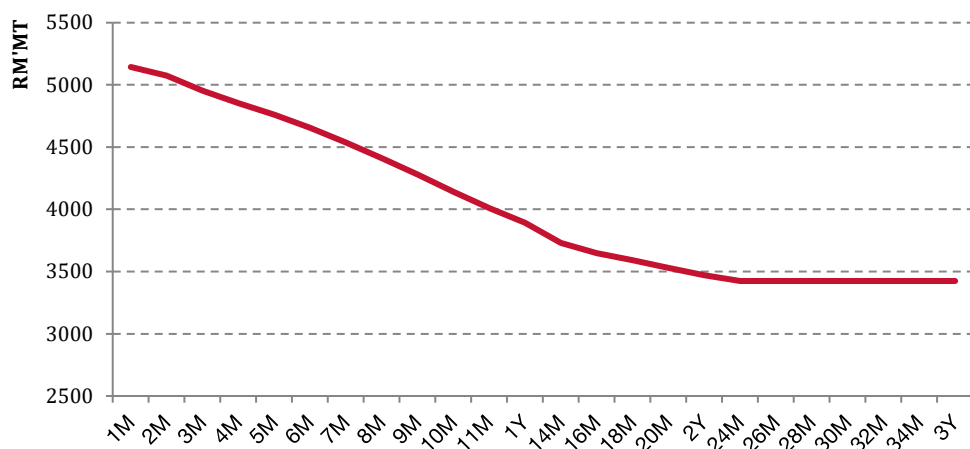
Source: MPOB, Kenanga Research

Exhibit 4: CPO Prices - Current & Forecast

	RM/MT
Last Price (08-October-21)	5,023
Year-to-date Average	4,206
2020 Average	2,781
	CY21
	RM/MT
CPO Price Forecast	3,700
Revisions	+0%

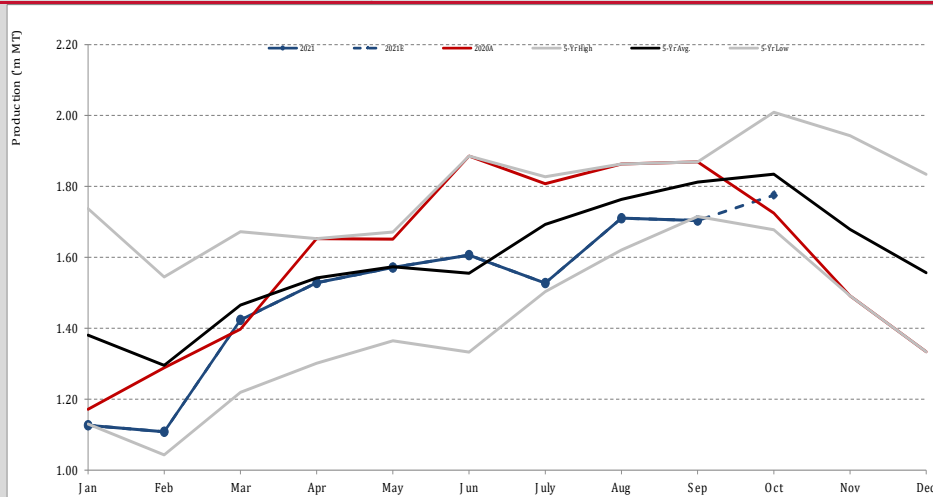
Source: Bloomberg, Kenanga Research

Exhibit 5: CPO Forward Curve as of 11-October-21



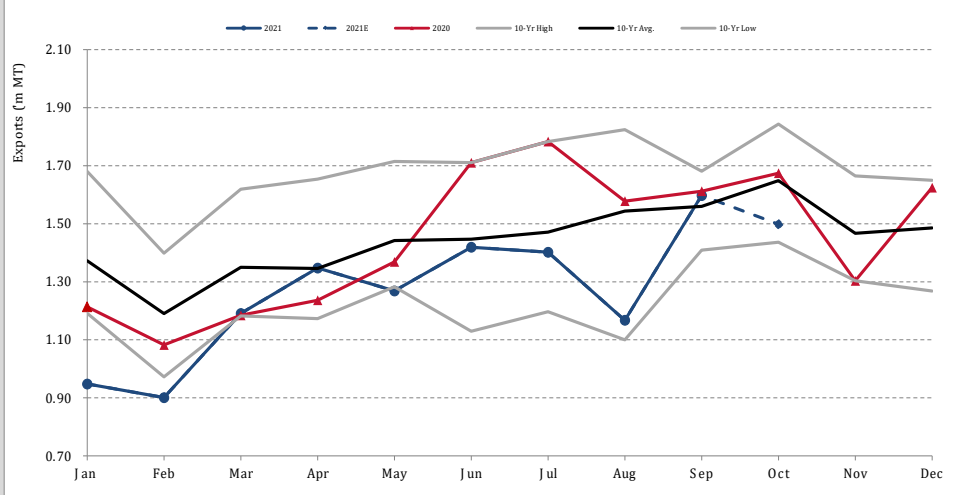
Source: Bloomberg, Kenanga Research

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



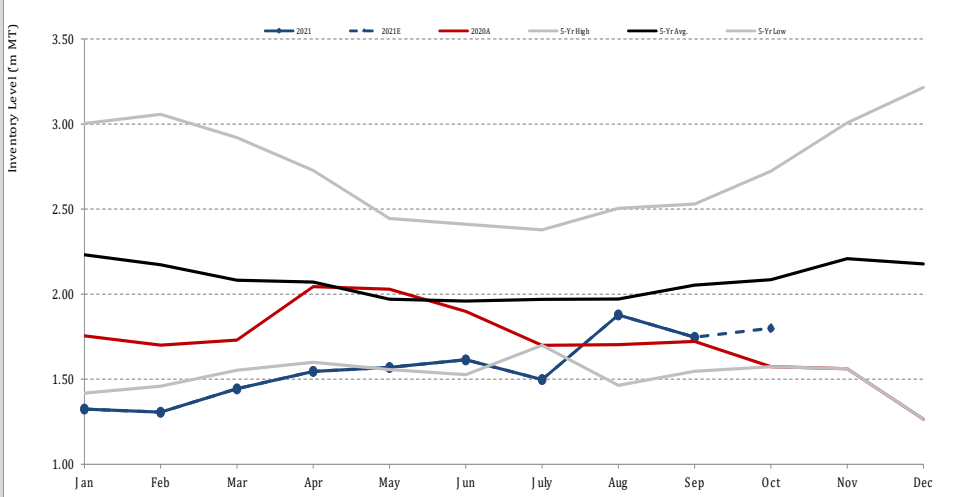
Source: MPOB, Kenanga Research

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



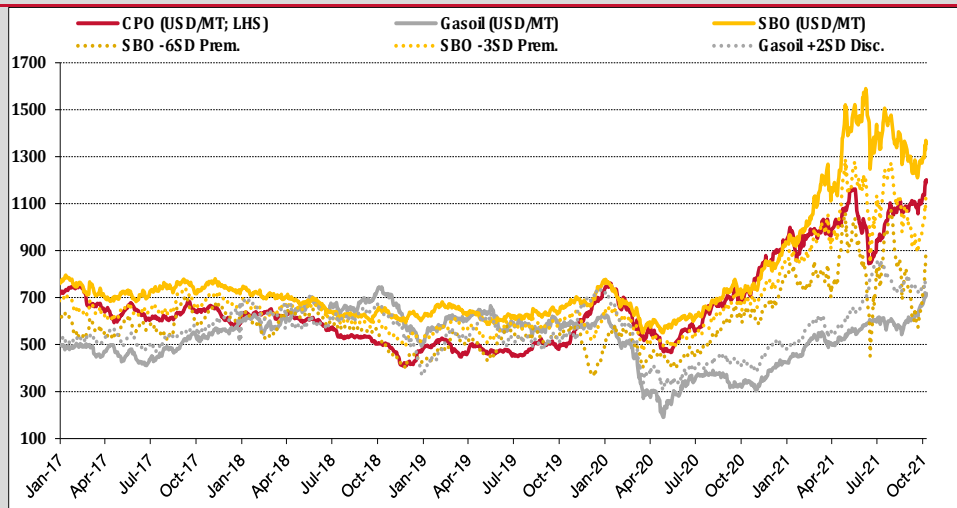
Source: MPOB, Kenanga Research

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



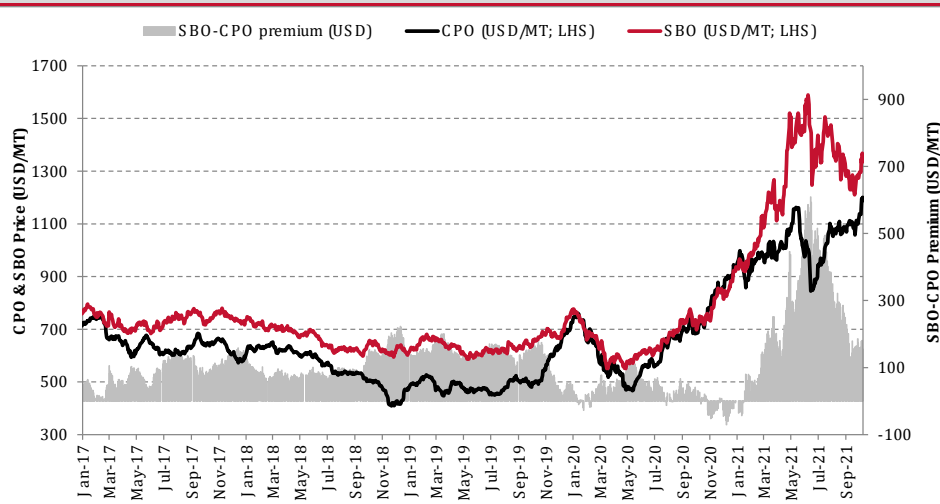
Source: MPOB, Kenanga Research

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



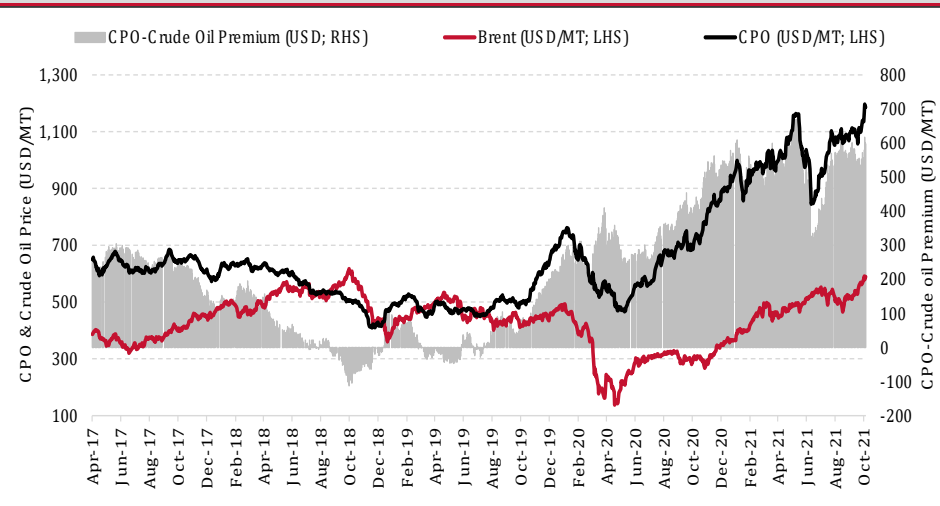
Source: Bloomberg, Kenanga Research

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.		
STOCKS UNDER COVERAGE																	
FGV HOLDINGS BHD	1.48	5,399.3	Y	12/2021	17.4%	-2.9%	30.7%	1.9%	21.9	16.7	16.4	1.3	1.2	7.5%	3.7%	1.45	MP
GENTING PLANTATIONS BHD	7.76	6,962.3	Y	12/2021	11.8%	-4.9%	57.8%	-3.1%	29.2	18.5	19.1	1.4	1.4	7.5%	3.4%	8.40	OP
HAP SENG PLANTATIONS HLDGS	2.23	1,783.3	Y	12/2021	45.7%	-10.7%	117.5%	-18.3%	25.7	11.8	14.5	1.0	1.0	8.6%	4.9%	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	4.07	25,344.9	Y	06/2022	5.1%	-5.8%	11.6%	-10.6%	30.3	21.2	23.8	2.5	2.4	11.5%	2.2%	4.05	MP
KUALA LUMPUR KEPONG BHD	22.70	24,468.0	Y	09/2021	22.4%	-2.3%	83.0%	-8.5%	32.2	17.6	19.2	2.2	2.1	12.2%	2.4%	23.60	OP
PPB GROUP BERHAD	18.50	26,318.1	Y	12/2021	18.4%	11.1%	3.7%	7.9%	20.1	19.4	18.0	1.2	1.1	6.1%	2.2%	19.40	MP
SIME DARBY PLANTATION BHD	4.27	29,530.1	Y	12/2021	30.9%	-6.0%	165.3%	-20.2%	35.0	13.3	16.6	2.2	2.0	15.8%	4.4%	4.60	OP
TA ANN HOLDINGS BERHAD	3.35	1,475.5	Y	12/2021	33.1%	-12.6%	178.1%	-25.6%	23.3	8.4	11.3	1.0	1.0	12.0%	4.8%	2.85	MP
TSH RESOURCES BHD	1.25	1,725.2	Y	12/2021	64.2%	-10.8%	92.2%	-27.1%	23.9	12.5	17.1	1.1	1.0	9.2%	2.4%	1.17	MP
UNITED MALACCA BHD	5.23	1,097.1	Y	04/2022	11.1%	-1.6%	123.1%	-25.9%	38.7	17.3	23.4	0.8	0.8	4.8%	2.9%	5.25	MP
Simple Average					25.1%	-4.6%	83.3%	-13.6%	27.5	15.6	18.0	1.5	1.4	9.8%	3.3%		

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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