

11 January 2022

Plantation

December Inventory Slipped MoM

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NEUTRAL



Review of December figures:

December inventory slipped MoM on the back of poor monthly output. Malaysian palm production seasonally peaks in September or more commonly in October. Thereafter monthly output would decline MoM until the following year's seasonal fruiting uptrend. However, December 2021 production came in a little weaker than usual due probably to a combination of (i) ongoing labour shortfall (ii) heavy rainfall, with several estates in Pahang, Selangor, Terengganu and Kelantan disrupted by floods and (iii) possibly lower fruit yields as indicated by some planters.

After surging exports in November, palm oil exports dipped in December 2021 by -3.5% MoM to 1,415 m MT which is also down by -13.9% YoY. Palm oil's competitiveness against rivals such as soyabean oil was hampered by elevated prices with CPO-Soy premium shrinking to US\$50-100 per MT, a level which typically would start prompting buyers to consider substituting soyabean oil for palm oil instead.

However, output fell even faster MoM than the monthly slowdown in exports. Production for the month of December fell -11.3% MoM to 1.451m MT. This in turn pulled down inventory for end December to 1.583m MT (-12.9% MoM). However, as inventory level was near decade low a year ago, this 2021's year end inventory was firmer YoY by +25.2% but still hovering at the lower range of inventory levels for the past 5 years. Local demand was healthy, up by 88k MT compared to a month ago as well as up by 103k MT compared to last December. This could be due to an early Chinese New Year, which falls on 1 February in 2022 versus 12 February in 2021. Import in December was up slightly MoM but remain small at 103k MT. Among the larger export destinations, only Egypt saw MoM pick up in exports. All other major export markets, including the three top markets India, China and EU were down MoM. On a full 12-month basis, only India, Turkey and Egypt saw stronger exports YoY. The other larger markets bought less palm oil in the calendar 2021 compared to CY2020.

Our projection for January:

Labour shortfall is set to continue constraining the sector in 1H CY22. The ongoing spread of the Omicron variant is not helping to accelerate the re-opening of borders either. We are expecting guest workers to only start trickling in after 2Q CY22, probably beyond. As such, we are expecting January 2022 production to just more or less meet exports with imports needed to meet domestic consumption. Some drawdown of December inventory is also anticipated hence end-January 2022 inventory is expected to shrink by about -9% MoM.

Our thoughts on the sector:

Palm oil fundamentals over the next month or two suggest little room for bad news. Be it unexpected labour shortages, poor weather or negative news from rival oil and fat complexes. The prevailing key factors remain: (i) speed of foreign workers intake to address labour situation, (ii) Chinese and Indian demand, (iii) ESG developments, and (iv) supply-demand dynamics of other edible oils. **Stay NEUTRAL on the plantation sector as supply should progressively ease current tightness in the global oils & fats market.**

However, we do favour groups that have expanded significantly, providing good growth even if prices softened. KLK (OP, TP RM30.00) is our integrated pick for this reason, strong growth as well as defensive in the event of weaker than expected CPO prices. HSPLANT (OP, TP RM2.30) is our pick for potential dividend surprises. As with all its peers in the sector, HSPLANT should enjoy stronger cashflow from firm CPO price. However, unlike its peers, HSPLANTY has a sizeable cash surplus and this is set to grow further following its proposed divestment of estates to its parent which should conclude in FY22.



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

	Dec-21	Nov-21	Diff.	MoM %	Dec-20	YoY%
Opening Stocks	1,817	1,835	(18)	-1.0%	1,562	16.3%
Production	1,451	1,635	(184)	-11.3%	1,334	8.8%
Imports	103	98	5	5.0%	282	-63.6%
Total Supply	3,371	3,567	(197)	-5.5%	3,177	6.1%
Exports	1,415	1,466	(51)	-3.5%	1,643	-13.9%
Domestic Disappearance	373	285	88	31.0%	270	38.3%
Total Demand	1,788	1,750	37	2.1%	1,913	-6.5%
End Stks	1,583	1,817	(234)	-12.9%	1,265	25.2%
Stock/Usage Ratio	7.4%	8.7%			5.5%	

Source: MPOB, Kenanga Research

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

	Dec-21	Nov-21	Dec-20	MoM%	YoY%	12M21	12M20	YoY%
China	147	202	148	-27.3%	-0.4%	1,873	2,731	-31.4%
India	372	418	567	-10.8%	-34.3%	3,593	2,745	30.9%
EU	165	156	138	6.2%	19.7%	1,640	1,937	-15.3%
Pakistan	35	39	48	-8.7%	-26.4%	610	1,004	-39.2%
Turkey	66	64	79	2.4%	-16.7%	704	614	14.6%
US	19	19	46	3.7%	-57.7%	269	540	-50.3%
Mozambique	19	34	14	-45.9%	31.8%	282	302	-6.4%
Egypt	36	12	9	198.5%	316.7%	220	156	41.1%
Others	555	522	595	6.3%	-6.7%	6,367	7,365	-13.6%
Total	1,415	1,466	1,643	-3.5%	-13.9%	15,557	17,393	-10.6%

Source: MPOB, Kenanga Research

Exhibit 3: January-2022 Production, Import, Export & Domestic disappearance forecast

	'000 MT	MoM chg
Opening stocks	1583.0	
Production	1358.8	-6.3%
Imports	89.1	-13.3%
Total supply	3031.0	
Exports	1349.2	-4.6%
Domestic disappearance	241.8	-35.2%
Total demand	1591.0	
Ending stocks	1440.0	-9.0%
Stock/Usage Ratio	7.5%	

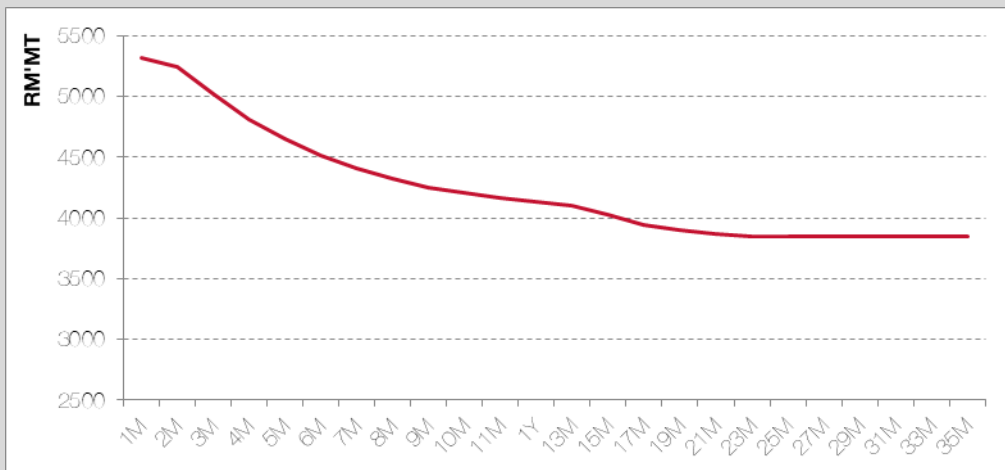
Source: MPOB, Kenanga Research

Exhibit 4: CPO Prices - Current & Forecast

	RM/MT
Last Price (07-January-22)	5,336
Year-to-date (2021) Average	4,417
2020 Average	2,781
	CY22
	RM/MT
CPO Price Forecast	3,500
Revisions	+0%

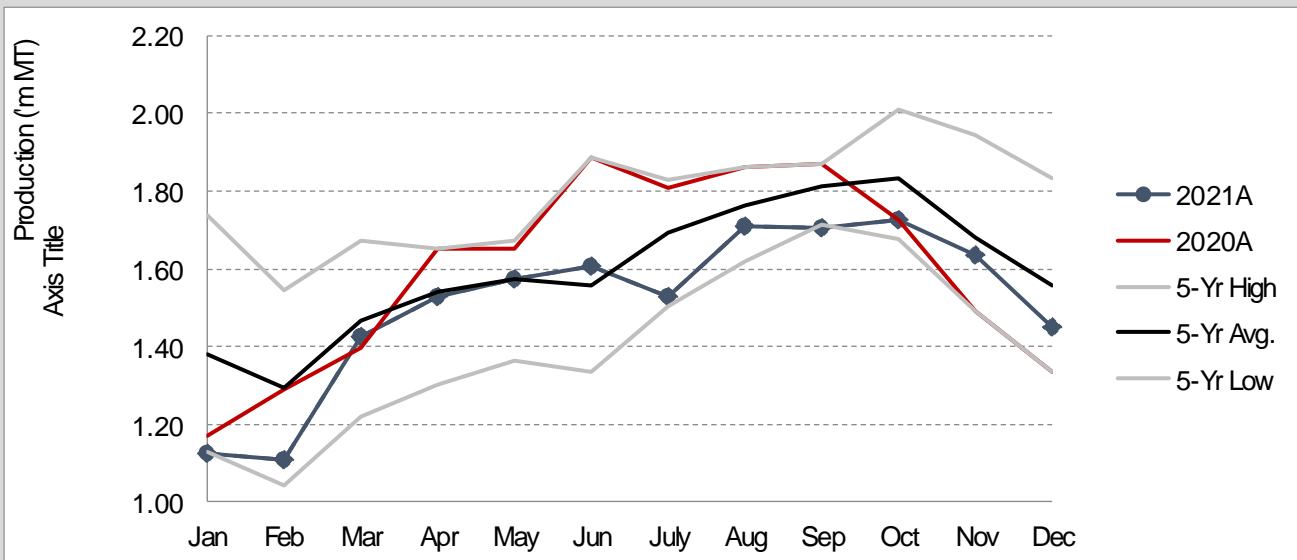
Source: Bloomberg, Kenanga Research

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



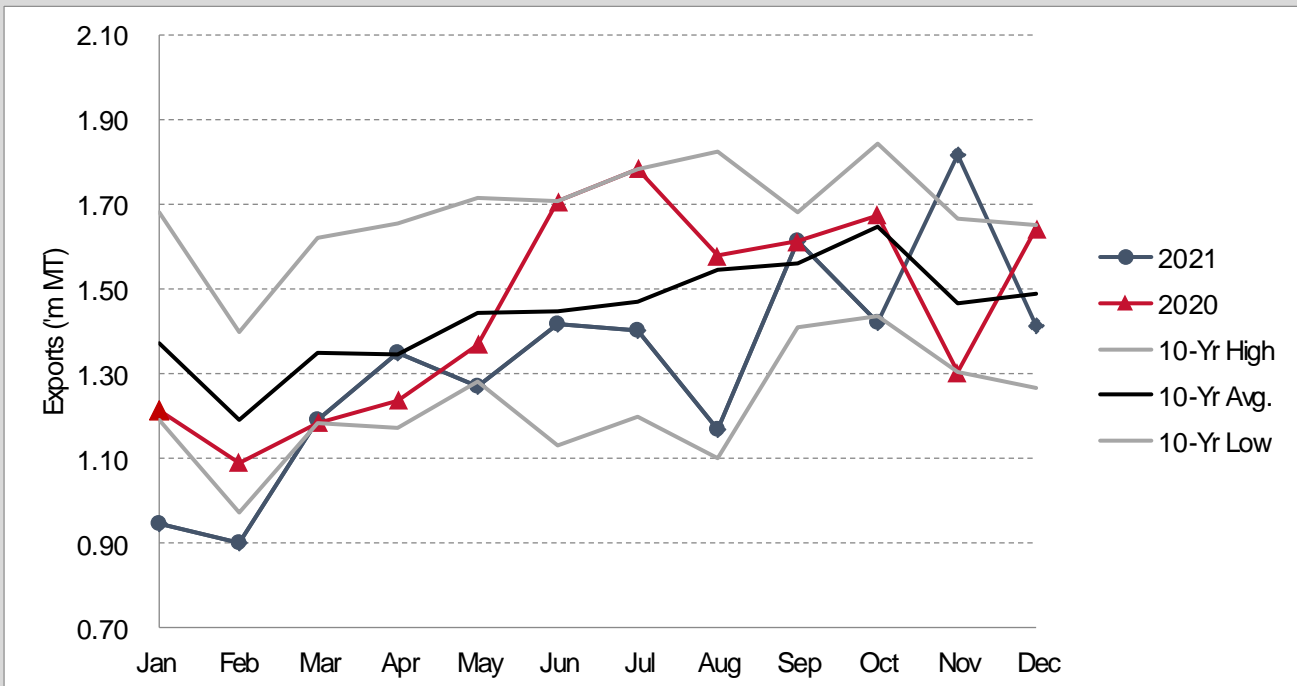
Source: Bloomberg, Kenanga Research

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



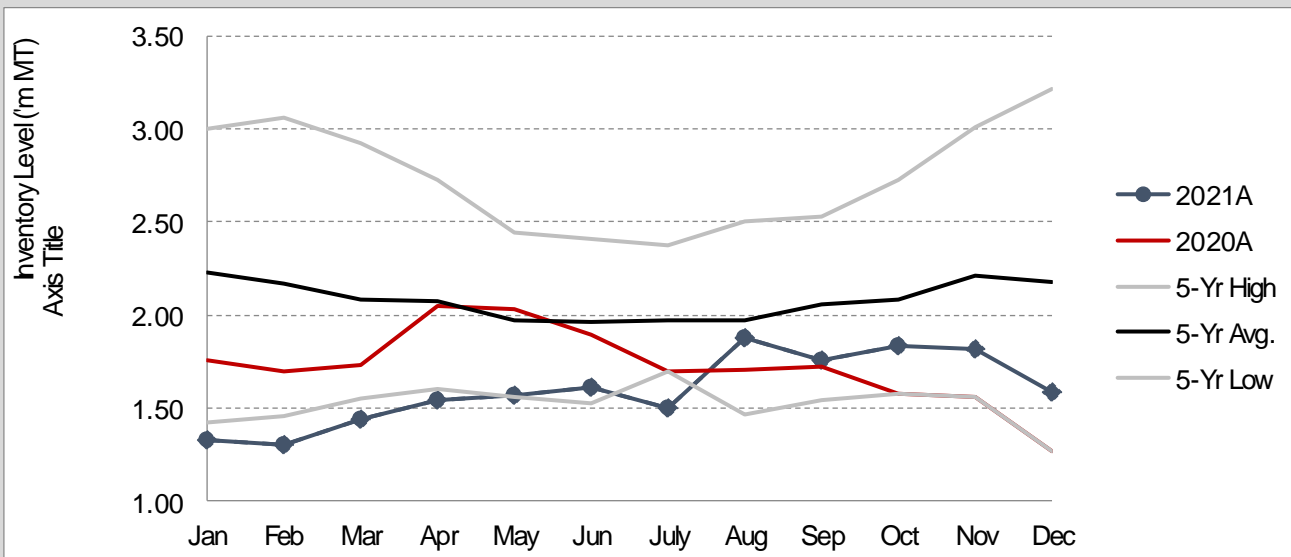
Source: MPOB, Kenanga Research

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



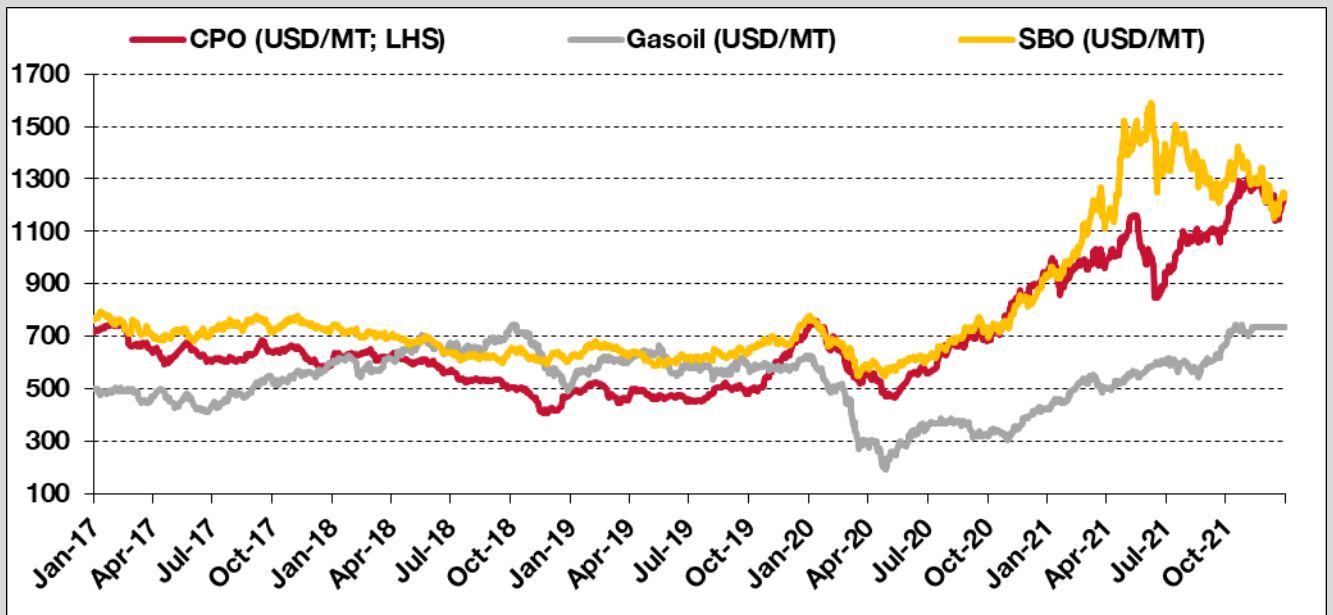
Source: MPOB, Kenanga Research

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



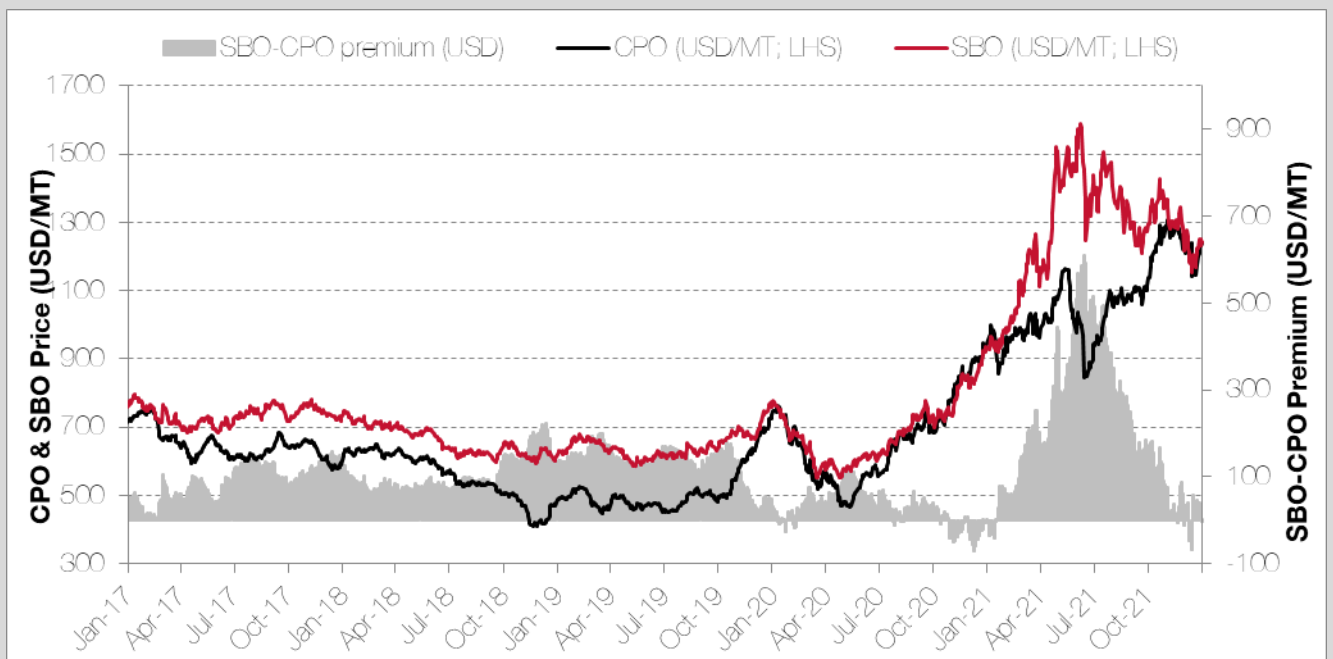
Source: MPOB, Kenanga Research

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



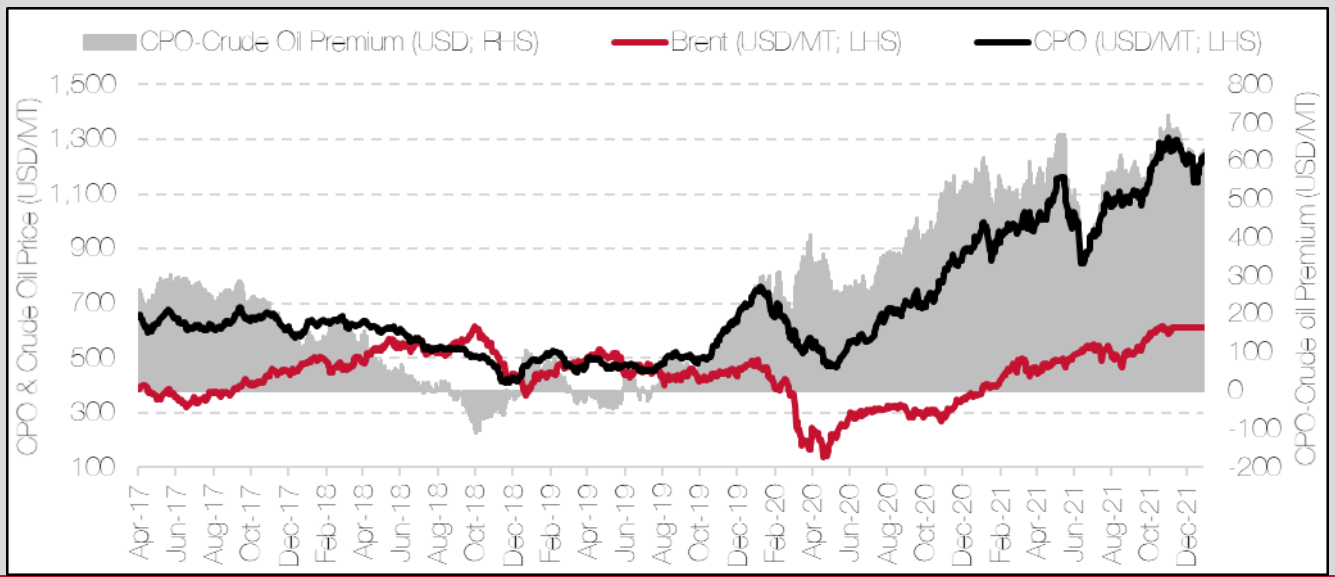
Source: Bloomberg, Kenanga Research

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
	(RM)	(RM'm)			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	1.49	5,435.7	Y	12/2021	19.4%	-4.5%	109.8%	-31.1%	22.0	10.5	15.2	1.3	1.2	11.9%	5.7%	1.55	MP
GENTING PLANTATIONS BHD	6.84	6,136.8	Y	12/2021	23.2%	-9.2%	73.7%	-11.9%	25.7	14.8	16.8	1.2	1.2	8.3%	4.2%	8.40	OP
HAP SENG PLANTATIONS HLDGS	2.00	1,599.4	Y	12/2021	60.8%	-20.6%	174.2%	-36.2%	23.1	8.4	13.2	0.9	0.9	10.8%	7.0%	2.30	OP
IOI CORP BHD	3.88	24,106.3	Y	06/2022	13.5%	-8.4%	20.6%	-14.1%	28.9	18.7	21.8	2.4	2.2	12.4%	2.4%	4.05	MP
KUALA LUMPUR KEPONG BHD	21.80	23,497.9	Y	09/2022	16.3%	-6.2%	20.1%	-12.8%	14.0	16.5	17.8	2.0	1.9	16.0%	2.5%	30.00	OP
PPB GROUP BERHAD	16.20	23,046.1	Y	12/2021	18.4%	11.1%	3.7%	5.2%	17.6	17.0	16.1	1.0	1.0	6.1%	2.5%	18.90	MP
SIME DARBY PLANTATION BHD	4.02	27,801.2	Y	12/2021	39.5%	-8.0%	194.3%	-35.7%	33.4	11.4	17.7	2.0	1.9	17.2%	5.2%	4.10	MP
TA ANN HOLDINGS BERHAD	3.38	1,488.8	Y	12/2021	44.8%	-19.0%	305.5%	-42.9%	23.5	5.8	10.1	1.1	1.0	17.4%	8.9%	3.25	MP
TSH RESOURCES BHD	1.12	1,545.8	Y	12/2021	80.6%	-18.9%	162.0%	-46.4%	21.5	8.2	15.3	1.0	0.9	12.4%	3.6%	1.17	MP
UNITED MALACCA BHD	5.11	1,071.9	Y	04/2022	20.4%	-5.6%	219.7%	-36.5%	37.8	16.9	22.8	0.8	0.8	7.4%	2.9%	5.40	MP
Simple Average					33.7%	-8.9%	128.4%	-26.2%	27.6	10.3	16.1	1.0	0.9	12.0%	5.1%		

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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