

14 August 2019

Plantation

July Stocks Lower Than Expected

UNDERWEIGHT



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July 2019 inventory declined 0.8% to 2.39m MT, below consensus' estimate of 2.47m MT on (i) lower-than-expected import of CPO (-63.8% MoM to 37k MT), likely due to the narrowing Indonesia-Malaysia CPO price discount, (ii) higher-than-expected domestic consumption (+17.6% MoM to 309k MT), and (iii) stronger-than-expected export volume (+7.4% MoM to 1.49m MT), mainly driven by non-key markets (+24.4%) and India (+7.6%). All-in, we expect supply of 1.90m MT to outstrip demand of 1.86m MT, leading to higher ending stocks of 2.42m MT in August 2019. **Maintain UNDERWEIGHT on the plantation sector** as we believe planters' earnings will continue to hit a rough patch in the coming quarter with 2QCY19 average CPO price at RM1,978/MT (YoY: -17.2%; QoQ: -1.3%). No changes to our **CY19 CPO price forecast of RM2,000/MT**. However, should there be stronger-than-expected demand from China arising from the ban of US agricultural products, resulting in falling stockpiles in the remaining 2H19 and sharp recovery in CPO prices, we would review the call and TP of planters under our coverage.



July 2019 CPO inventory declined 0.8% MoM to 2.39m metric tons (MT), lower than consensus' expectation of 2.47m MT. The deviation is mainly attributable to: (i) lower-than-expected CPO import (MoM: -63.8%; 37k MT vs. consensus' forecast of 80k MT), likely due to the narrowing Indonesia-Malaysia CPO price discount, (ii) higher-than-expected domestic consumption (MoM: +17.6%; 309k MT vs. consensus' forecast of 280k MT), and (iii) stronger-than-expected export volume (MoM: +7.4%; 1.49m MT vs. consensus' forecast of 1.44m MT). The strong export volume was mainly driven by non-

key markets (MoM: +24.4% to 673k MT) and India (MoM: +7.6% to 456k MT), as the local consumption remains strong, as evidenced by the quick drawdown of palm oil inventory from 820k MT in February 2019 to 587k MT in July 2019. However, export to the EU declined (MoM: -20.8%) to 144k MT likely due to falling crude oil prices. Meanwhile, CPO production of 1.74m MT (MoM: +15.1%) was broadly within consensus' expectation of 1.69m MT.

August 2019 production to grow by 5.2% to 1.83m MT. From our channel checks with planters, due to a change in cropping patterns from the effects of El Nino and La Nina, most of them are expecting to see peak production period in October-November. As such, we believe production is on track to pick up in the coming months and we forecast August's output to increase by 5.2% to 1.83m MT.

Export volume to increase 6.0% MoM. We expect to see a 6.0% MoM increase in export volume to 1.57m MT, fueled by increased demand from: (i) China following the ban on US' agricultural products, and (ii) India as its palm oil inventory is at its lowest YTD (587k MT). These should be partially offset by a decline in exports to the EU, as narrowing CPO-gasoil discount (currently at c.USD60/MT vs. 1-year average of USD137/MT) is likely to discourage discretionary biodiesel blending.

August 2019 stocks to rise 1.3% to 2.42m MT. We expect supply of 1.90m MT to outstrip demand of 1.86m MT, leading to higher ending stocks of 2.42m MT in August 2019. Thus far, CPO price has recovered from a low of RM1,864/MT in early July due to recent positive developments such as China's proposed removal of import quota for palm oil, potentially marking its commitment to import more CPO. However, with production likely to pick up and peak in Oct/Nov 2019, we believe this would cap further upside to CPO prices. All-in, we believe CPO price will continue to remain range-bound (RM1,900- RM2,100/MT) in 2H19.

Maintain UNDERWEIGHT on the plantation sector. We believe planters' earnings will continue to hit a rough patch in the coming quarter with 2QCY19 average CPO price at RM1,978/MT (YoY: -17.2%; QoQ: -1.3%), which should mask any pick-up in production. As such, we are maintaining our CY19 CPO price forecast of RM2,000/MT and our UNDERWEIGHT stance on the sector. However, should there be stronger-than-expected demand from China arising from the ban of US agricultural products, resulting in falling stockpiles in the remaining 2H19 and sharp recovery in CPO prices, we would review the call and TP of planters under our coverage.

Exhibit 1: Palm Oil Statistics for Jul-2019 ('000 tonnes)

	Jul-19	Jun-19	Diff.	MoM %	Jul-18	YoY%
Opening Stks	2,410.7	2,444.5	-33.7	-1.4%	2,187.0	10.2%
Production	1,738.4	1,510.8	227.5	15.1%	1,503.2	15.6%
Imports	36.7	101.3	-64.6	-63.8%	44.0	-16.7%
Total Supply	4,185.8	4,056.6	129.2	3.2%	3,734.3	12.1%
Exports	1,485.2	1,383.2	102.0	7.4%	1,196.7	24.1%
Dom Disapp	308.9	262.6	46.3	17.6%	322.9	-4.4%
Total Demand	1,794.1	1,645.8	148.3	9.0%	1,519.6	18.1%
End Stks	2,391.7	2,410.7	-19.1	-0.8%	2,214.7	8.0%
Stock/Usage Ratio	11.1%	12.2%			12.1%	

Source: MPOB, Kenanga Research

Exhibit 2: Monthly Exports and YTD exports for Jul-2019 ('000 tonnes)

	Jul-19	Jun-19	Jul-18	MoM%	YoY%	7M19	7M18	YoY%
China	91	108	112	-15.7%	-18.8%	1,098	977	12.3%
India	456	424	131	7.6%	246.7%	3,041	1,521	100.0%
EU	144	182	157	-20.8%	-8.3%	1,261	1,193	5.7%
Pakistan	81	77	78	5.8%	4.1%	593	706	-15.9%
US	40	52	33	-22.4%	23.7%	388	303	28.1%
Others	673	541	695	24.4%	-3.1%	4,474	4,739	-5.6%
Total	1,485	1,383	1,206	7.4%	23.2%	10,856	9,438	15.0%

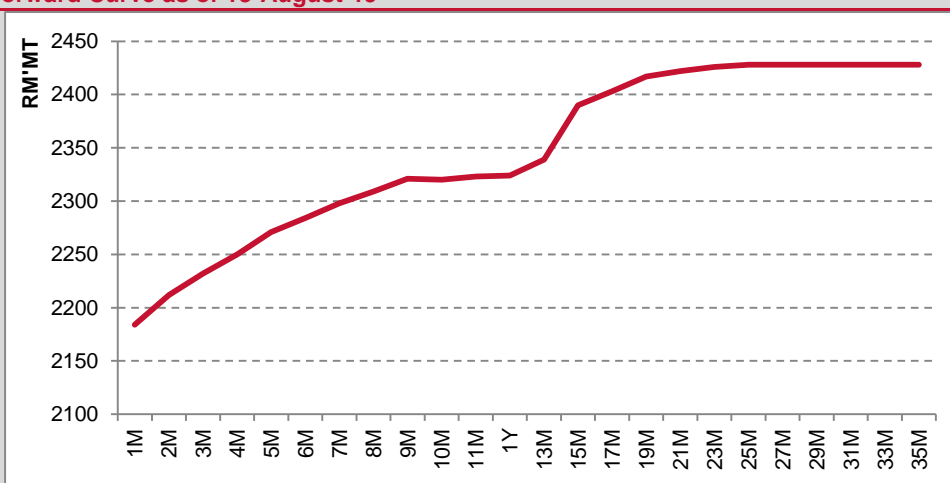
Source: MPOB, Kenanga Research

Exhibit 3: CPO Prices - Current & Forecast

	RM/MT
Last Price (9-August-19)	2,085
Year-to-date Average	1,977
2018 Average	2,235
	CY19
	RM/MT
CPO Price Forecast	2,000
Revisions	+0%

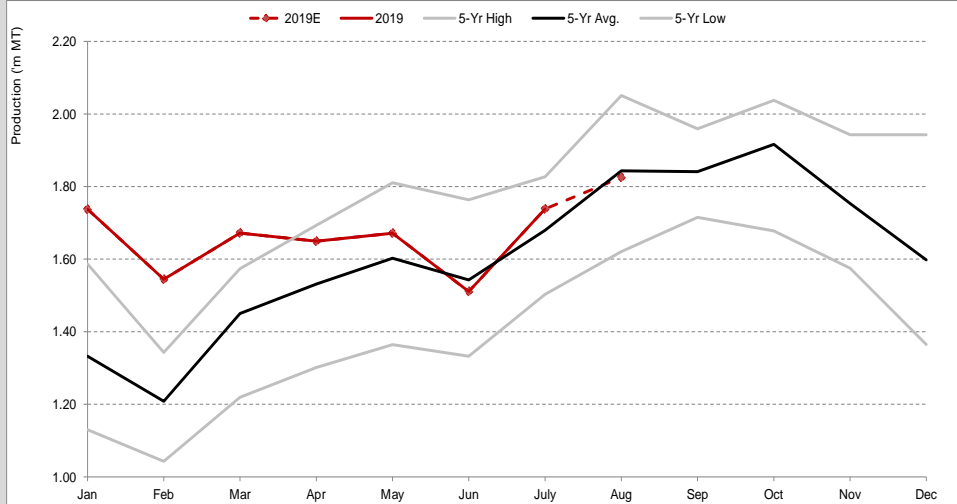
Source: Bloomberg, Kenanga Research

Exhibit 4: CPO Forward Curve as of 13-August-19



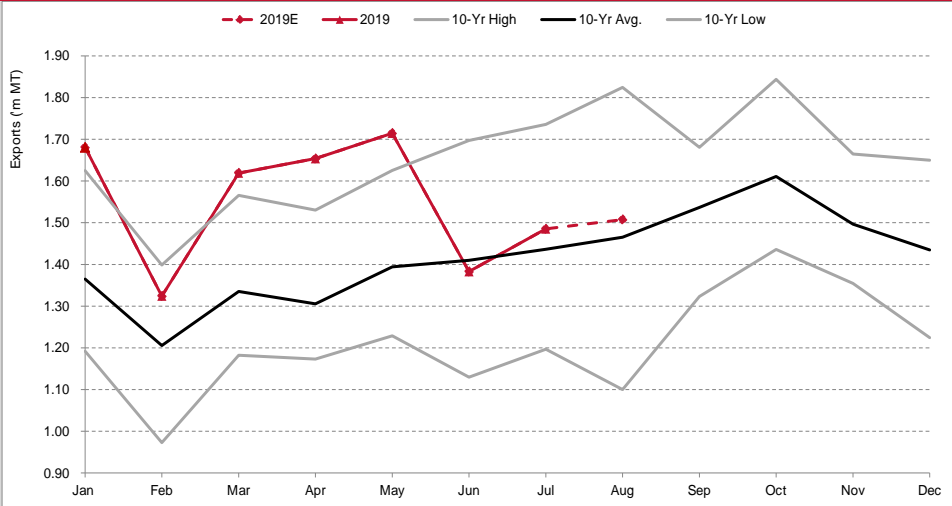
Source: Bloomberg, Kenanga Research

Exhibit 5: Malaysia 2019E CPO Production vs. 5-year Trends



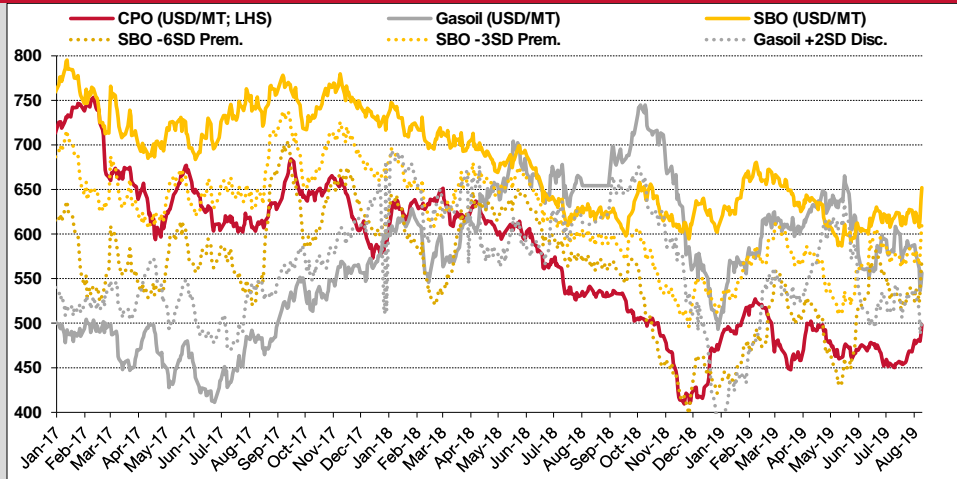
Source: MPOB, Kenanga Research

Exhibit 6: Malaysia 2019E CPO Exports vs. 10-year Trends



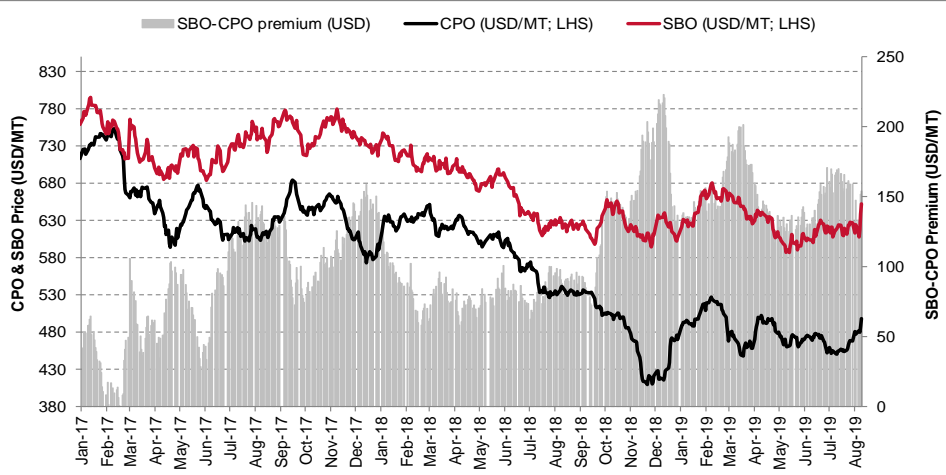
Source: MPOB, Kenanga Research

Exhibit 7: CPO vs. SBO Price and Gasoil Premium/Discount



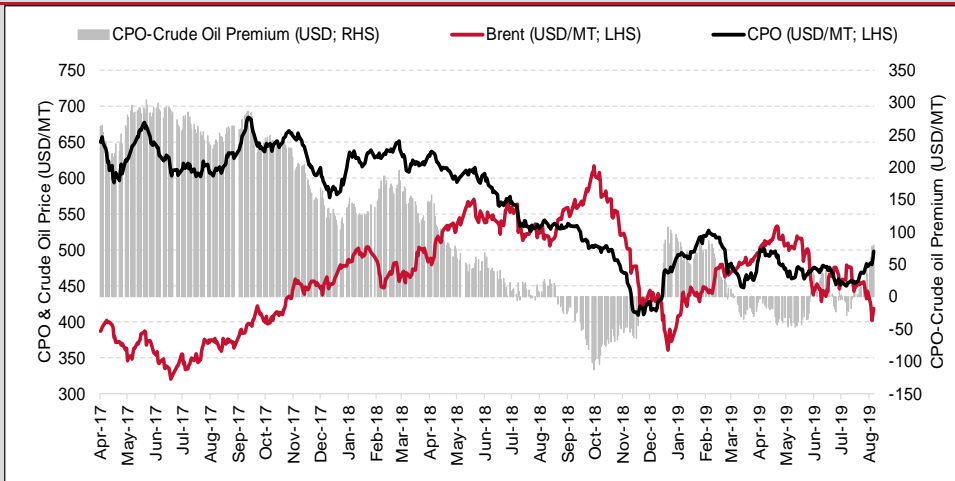
Source: Bloomberg, Kenanga Research

Exhibit 8: CPO vs. SBO Price and Historical Premiums



Source: Bloomberg, Kenanga Research

Exhibit 9: 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																	
CB INDUSTRIAL PRODUCT HLDG	0.940	476.1	Y	12/2019	7.6%	36.3%	-9.4%	35.0%	9.4	10.4	7.7	0.7	0.6	6.2%	4.3%	1.10	OP
FGV HOLDINGS BHD	1.09	3,976.5	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	0.9	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	9.59	8,604.1	Y	12/2019	2.4%	6.2%	40.6%	39.1%	54.0	41.9	32.7	1.9	2.0	4.8%	1.4%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.48	1,183.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.7	174.5	42.5	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.37	1,206.4	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	78.6	43.5	0.7	0.7	0.9%	0.7%	1.40	UP
IOI CORP BHD	4.20	26,395.5	Y	06/2019	-13.2%	5.7%	-6.3%	15.2%	28.3	30.1	26.2	2.9	2.8	9.3%	1.7%	4.35	MP
KUALA LUMPUR KEPONG BHD	23.56	25,090.6	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	28.1	29.2	25.7	2.2	2.1	7.4%	1.7%	22.00	UP
PPB GROUP BERHAD	18.76	26,688.0	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.3	22.9	22.0	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.60	31,669.0	Y	12/2019	71.7%	11.1%	88.6%	154.0%	270.6	115.0	46.0	2.4	2.4	3.2%	0.9%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.70	506.7	Y	03/2020	5.1%	15.5%	-41.1%	20.2%	13.8	23.4	19.4	0.9	0.8	3.6%	0.5%	2.50	UP
TA ANN HOLDINGS BERHAD	2.15	947.0	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	11.6	14.9	11.1	0.7	0.7	4.7%	3.7%	2.40	MP
TSH RESOURCES BHD	0.900	1,242.8	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	25.1	27.2	18.8	0.9	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.15	1,079.9	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.9	0.6	0.6	-0.4%	1.2%	5.00	MP
Simple Average					8.8%	11.4%	-35.8%	4.7%	51.0	51.7	34.0	1.3	1.3	3.3%	1.5%		

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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